

From: Young, Gwendolynne (MOF) []
To: Mayman, Gadi (OFA) [Gadi.Mayman@ofina.on.ca]; Wynberg, Lynsey (OFA) [Lynsey.Wynberg@ofina.on.ca]; Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]; Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]; McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Asset Panel Report Briefing - Materials
Date: Monday, January 16, 2017 17:39:38
Attachment 1: Minister Pension Asset Update V2.pptx

Attached is the deck from the Asset Panel Report briefing tomorrow.

Gwen Young

Senior Policy Advisor

Deputy Minister's Office | Ministry of Finance

p: 416.325.0741 | bb: 647.982.2419

Pension Asset Expert Advisory Panel

Minister Briefing

January 17, 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the 'Panel')'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions.

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear.
- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued.
- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
 - it exists, and
 - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan.
- Unilateral control not necessary for asset recognition:
 - in fact cannot exist in JDBPs,
 - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit, and
 - each sponsor can recognize an asset relating to its portion of that jointly controlled asset.

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions:
 - legal requirements for surplus withdrawal and contribution reductions are very different, and
 - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes.
- Expected future benefit is determined as difference between:
 - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
 - required minimum contributions regardless of surplus in plan both on a present value basis.

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear:
 - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions.
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions.

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions.
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts.

Recommendations to PSAB Task Force

- Report will note that in some areas, the necessary guidance was not found in the pension standard.
- The complete public sector standards provided a satisfactory basis for all of the Panel's conclusions.
- The Panel will identify for the Task Force those areas where additional guidance in the pension standard itself would be desirable.

Timelines and Next Steps

- Week of January 16th – Panel to review and finalize report and executive summary.
- Week of January 23rd – Final report and executive summary completed and approved by the Panel.
- Week of January 30th – send final report to Auditor General with offer to meet to discuss the findings.
- Early February – Completion of supplemental report on HOOPP and CAATPP.

From: McLean, David (MOF) []
To: Pearce, Christopher (MOF) [Christopher.Pearce@ontario.ca]
Subject: FW: Expert Panel Final DM Briefing Deck
Date: Monday, January 09, 2017 10:19:21
Attachment 1: Final - Deputy Minister Pension Asset Update.pptx
Attachment 2: ATT00001.htm

From: MacIntyre, Kyle (TBS)
Sent: January 6, 2017 4:16 PM
To: McLean, David (MOF)
Subject: Fwd: Expert Panel Final DM Briefing Deck

FYI

Begin forwarded message:

From: "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>
Date: January 6, 2017 at 4:14:51 PM EST
To: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Nelson, Dane (TBS)" <Dane.Nelson@ontario.ca>
Subject: FW: Expert Panel Final DM Briefing Deck

Hi guys –

As discussed, here is the final pension asset deck which will be used for the briefing on Monday.

Please share with the MO and MOF DMO.

Thanks,

P.

From: Tam, Nelson (TBS)
Sent: January-06-17 12:22 PM
To: Laughton, Patrick (TBS); Veinot, Cindy (TBS)
Cc: Hosick, Sarah (TBS)
Subject: Expert Panel Final DM Briefing Deck

Patrick

Attached is the final version of the briefing deck for the DM meeting on January 9th. Incorporated are the suggested changes, specifically to slide number 5, as communicated by Gabrielle. The changes were approved by the Chair.

I will bring copies to the meeting.

Let me know if you need anything else.

Thanks

Nelson

X20514

Pension Asset Expert Advisory Panel Briefing

January 9 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the 'Panel')'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.
- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- The expert panel (See Appendix A) was established November 10 to review the PSAS accounting for pension assets in jointly sponsored plans and provide advice to the government. (See Appendix B for Terms of Reference)

General

- Panel held four all-day meetings.
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions

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- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear
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Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts

Recommendations to PSAB Task Force

- Clarify guidance regarding sponsor's ability to access expected future benefits
 - Distinguish requirements for surplus withdrawals from contribution reductions
 - Specifically discuss control requirements in JDBPs
- More guidance needed on determining minimum contributions when future contributions are dependent on funded status of plan and are negotiable
- Deferral accounting can result in recognition of an asset when the plan is in fact in a deficit because of unamortized losses. Inclusion of item in balance sheet that does not represent an economic resource is not representationally faithful

Recommendations to PSAB Task Force

- Task Force should consider:
 - whether the method used to settle an obligation should affect how that obligation is measured, and
 - how the risks inherent in the obligation are best captured either in the discount rate or in other aspects of the measurement of the obligation, i.e., are deterministic single point best estimate assumptions with no provision for risk and a single discount rate providing a realistic measure of the liability?
- May be beneficial ask AcSB to consider including additional disclosures in public pension plan financial statements about how the objectives and assumptions in funding valuations differ from those used in the accounting valuation

Timelines and Next Steps

- January 11th – the Chair will begin drafting the Executive Summary and the Panel will meet to discuss the Health Care of Ontario Pension Plan (HOOPP) and College of Applied Arts and Technology Pension Plan (CAATPP).
- January 16th – Completion of final report and Executive Summary for the OPSEUPP and OTPP.
- January 23rd – Draft supplemental report, on HOOPP and CAATPP, submitted to the Panel by the report writer for comments.
- February 3rd – Completion of supplemental report on HOOPP and CAATPP.

Appendix A – Panel Members

- Patricia O'Malley (Chair) (accountant) – Chair of the Canadian Actuarial Standards Oversight Council, formerly Chair of the Canadian Accounting Standards Board, member of the International Accounting Standards Board and technical partner in KPMG Canada's national office
- Uros Karadzic (actuary) – Partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting
- Murray Gold (lawyer) – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Paul Martin (accountant) – Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP

Appendix B – Terms of Reference (Scope)

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan
- The requirement regarding control with respect to recognizing a pension asset for other pension plans
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors
- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

From: McLean, David (MOF) []
To: Ize-Dukuze, Marilyn (MOF) [Marilyn.Ize-Dukuze@ontario.ca]; Jackson, Kelly (MOF) [Kelly.Jackson2@ontario.ca]
Subject: FW: FINAL PO approved - Expert Panel Comms Products - Backgrounder + News Release
Date: Thursday, November 10, 2016 13:22:03
Attachment 1: Backgrounder - Pension Asset Expert Advisory Panel - 10NOV2016 FINAL PO APPROVED clean.doc
Attachment 2: ATT00001.htm
Attachment 3: NR - Expert Panel Appointed - 10NOV2016 - FINAL PO APPROVED clean.doc
Attachment 4: ATT00002.htm

FYI only.

David McLean

Executive Assistant and Special Policy Advisor

Deputy Minister's Office

Ministry of Finance

416-327-0192

david.mclean@ontario.ca

From: MacIntyre, Kyle (TBS)
Sent: November 10, 2016 12:01 PM
To: Bromm, William (CAB); McLean, David (MOF); Farrow, Alicia (CAB)
Subject: Fwd: FINAL PO approved - Expert Panel Comms Products - Backgrounder + News Release

FYI. The plan is to send out a NR and backgrounder on the Panel appointment...tracking to a potential 1pm release.

Begin forwarded message:

From: "Jackson, Sarah (TBS)" <Sarah.Jackson@ontario.ca>
Date: November 10, 2016 at 11:50:12 AM EST
To: "Ostergard, Matt (TBS)" <Matt.Ostergard@ontario.ca>, "Nelson, Dane (TBS)" <Dane.Nelson@ontario.ca>, "Pichelli, Jason (TBS)" <Jason.Pichelli@ontario.ca>, "Tedesco, Lauren (TBS)" <Lauren.Tedesco@ontario.ca>, "Jancik, Mike (TBS)"

<Mike.Jancik@ontario.ca>

Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Simone, Nicole (TBS)" <Nicole.Simone@ontario.ca>, "White, Alexander (TBS)" <Alexander.White@ontario.ca>, "Morris, David (TBS)" <David.Morris@ontario.ca>, "Miller, Amanda (TBS)" <Amanda.Miller@ontario.ca>, "Sullivan, Bryant (TBS)" <Bryant.J.Sullivan@ontario.ca>, "DiMuzio, Sofie (TBS)" <Sofie.DiMuzio@ontario.ca>, "Wesley, Jason (TBS)" <Jason.2Wesley@ontario.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>

Subject: FINAL PO approved - Expert Panel Comms Products - Backgrounder + News Release

Hi all,

Confirming the attached products are COPO approved (no changes). These will be shared with the chair shortly, along with the media package.

Once everything is live, I will send updated versions with the backgrounder links in the NR. I will also send the French at that point.

Matt- do you mind confirming once the Minister has signed the last letter so we know we are clear to post at 1:00pm? We will wait for final confirmation from you.

Thanks again all.

Sarah

Sarah Jackson

Senior Communications Consultant

Treasury Board Secretariat

Ph: 416-212-7790

Email: Sarah.Jackson@ontario.ca

Pension Asset Expert Advisory Panel Members

November 10, 2016

In preparing the 2015-16 Public Accounts of Ontario, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the province's jointly-sponsored pension plans. Despite best efforts to resolve concerns, the province's professional accounting staff and the Auditor General continue to have differences of opinion. The government committed to forming an independent expert panel to deliver advice and recommendations on this issue.

The following four members have been appointed to the Pension Asset Expert Advisory Panel:

- Tricia O'Malley (Chair)
- Murray Gold
- Uros Karadzic
- Paul Martin

Tricia O'Malley has been a member of the Canadian Actuarial Standards Oversight Council since 2012, serving as Chair since January 2015. She has also been a member of the Canadian Accounting Standards Oversight Council since 2013. She is currently a member of the Board and Chair of the Audit Committee of Assuris, which guarantees benefits on policies written by life insurers in Canada.

Ms. O'Malley was Chair of the Canadian Accounting Standards Board (AcSB) from 2009 to 2010 and also served as its first full-time Chair from 1999 to 2001. She was a member of the International Accounting Standards Board (IASB) from 2001 until 2007 and she served on its staff as Director of Implementation Activities from 2007 to 2009. Supported by AcSB staff, she chaired the International Forum of Accounting Standard Setters, an informal association of bodies with a responsibility for setting or reviewing accounting standards in their various jurisdictions, from 2011 until April 2016.

Before joining the AcSB in 1999, Ms. O'Malley spent 17 years as a partner in the National Assurance and Professional Practice Group of KPMG Canada, where she consulted on complex accounting issues, focusing on financial instruments and structured finance transactions.

In 2011, Ms. O'Malley was named as one of Canada's Top 100 Most Powerful Women by the Women's Executive Network. In 2012, she received the Queen Elizabeth II Diamond Jubilee Medal. In June 2016, Ms. O'Malley received a Doctor of Laws *honoris causa* degree from the University of Waterloo.

Murray Gold is a leading practitioner and senior pension and benefits partner at Koskie Minsky LLP. Mr. Gold advises governing boards of public sector, multi-employer and jointly-trusted pension and benefits plans across Canada on compliance issues and best practices. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold has been lead counsel for Koskie Minsky in regard to pension reform initiatives and litigation in Newfoundland, New Brunswick, Ontario and Alberta, and health benefit plan reforms in Ontario and British Columbia. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions, and in 2016, he served as a first director of the Ontario Retirement Pension Plan Administration Corporation.

Mr. Gold is a Fellow of the Ontario Teachers' Federation, recognizing his work with the Ontario Teachers' Pension Plan.

Murray served on the firm's executive committee and then as the firm's managing partner from 2012-2016.

Uros Karadzic is a partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting. As a pension actuary, Mr. Karadzic has extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

Mr. Karadzic has advised Canadian and multinational clients on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration. His primary focus is in:

- Pension audit and internal audit
- Pension and benefit issues in merger and acquisition transactions
- Ongoing advisory services on retirement benefit plans

Since 2006, Mr. Karadzic has been a Fellow of the Society of Actuaries (FSA) and a Fellow of the Canadian Institute of Actuaries (FCIA).

Paul Martin is Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP. He is a respected leader with more than 35 years of experience. He has significant expertise with Public Accounting Standards and pension plans including the shared risk/targeted benefit models. Mr. Martin is a past president of the New Brunswick Institute of Chartered Accountants and currently serves as a member of the CPA Canada Employment Benefits Task Force.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications, 416-327-4023

ontario.ca/treasury-board-
secretariat
Disponible en français

Ontario Names Expert Panel to Review Pension Assets

Independent Panel to Deliver Recommendations on Accounting for Pension Assets

NEWS

November 10, 2016

Ontario has appointed four members [\[link to Backgrounder with bios\]](#) to its newly established Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

The members of this short-term advisory body include Murray Gold, Uros Karadzic, Paul Martin and chair Tricia O'Malley. The panel has been appointed by President of the Treasury Board Liz Sandals, with members having expertise in the areas of jointly-sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

Panel members will also provide advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

QUOTES

"We look forward to receiving the expert panel's report and recommendations on this important accounting issue. This independent advice will guide our discussions as we work toward agreement with the Auditor General of Ontario on the future preparation of the province's financial statements."

— Liz Sandals, President of the Treasury Board

"Pension accounting is a complex issue. I look forward to bringing together the unique professional skillsets and perspectives of the advisory panel and to delivering recommendations that will help clarify how public sector accounting standards are interpreted and applied."

— Tricia O'Malley, Chair, Pension Asset Expert Advisory Panel

QUICK FACTS

- In preparing the 2015-16 Public Accounts of Ontario, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the province's jointly sponsored pension plans. Despite best efforts to resolve concerns, the province's professional accounting staff and the Auditor General continue to have differences of opinion, and the government committed to forming an independent expert panel to deliver advice and recommendations on this issue.
- The panel's report is due to the President of the Treasury Board. It will be shared with the Auditor General of Ontario and be made public in early 2017.
- Public Accounts is a retrospective report that compares Ontario's actual performance to what was planned in the Budget.

- Treasury Board Secretariat prepares the Public Accounts in accordance with the principles for governments recommended by the PSAB, which independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision making.

ADDITIONAL RESOURCES

Pension Asset Expert Advisory Panel [[link to Backgrounder with bios](#)]

[Pension Asset Expert Advisory Panel Terms of Reference](#)

[2015-16 Public Accounts](#) and explore supplementary information available through new data visualization tools

[Watch a video explaining Public Accounts](#)

Learn about the government's [fiscal cycle](#)

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications, 416-327-4023

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secretariat**
Disponible en français

From: MacIntyre, Kyle (TBS) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: FW: Final Deloitte Opinion
Date: Sunday, October 02, 2016 18:37:02
Attachment 1: Treasury Board Secretariat 7600 Report FINAL.pdf

FYI

From: Veinot, Cindy (TBS)
Sent: October-02-16 1:02 PM
To: Hughes, Karen (TBS); Orencsak, Greg (TBS); Thompson, Scott (MOF)
Cc: MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Petsche, Nadine (TBS)
Subject: Final Deloitte Opinion

See attached. We can discuss who will forward to the AG.

Kyle – could you forward to the balance of the internal group with the reminder that the opinion cannot be shared outside of management of the government, except for the auditor general and cannot be quoted from.

Thanks,

Cindy

From: Colley, Matthew (CA - Toronto) [<mailto:mcolley@deloitte.ca>]
Sent: October-02-16 11:18 AM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Danyluk, Kerry (CA - Toronto)
Subject: Final Report

Hi Nadine and Cindy,

Please find attached our final report.

Kind regards,

Matt

Confidentiality Warning:

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October 2, 2016

Private and confidential

Ms. Karen Hughes
Associate Deputy Minister,
Treasury Board Secretariat,
7 Queen's Park Crescent
Toronto ON M7A 1Y7

Dear Ms. Hughes:

We have been engaged to report on the appropriate application of certain aspects of Canadian public sector accounting standards to the recognition of the accrued benefit asset (also referred to in this report as the Pension Asset or the Asset) related to the Ontario Teachers' Pension Plan (OTPP the Plan) in the Province of Ontario's (also referred to as the Province or the Government of Ontario in this report) accounts as at March 31, 2016. This report is being issued to the Associate Deputy Minister of the Treasury Board Secretariat of the Government of Ontario. Our engagement has been conducted in accordance with Canadian generally accepted standards for such engagements.

It should be noted that the responsibility for the proper accounting treatment rests with the preparers of the financial statements, who should consult with their incumbent auditor. Our judgment on the appropriate application of Canadian public sector accounting standards for the specific issue being discussed is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

Statement of facts and assumptions

It should be noted that the following background and facts represent a high level summary of the situation and represent those facts that we considered important in reaching our opinion. They do not purport to be a complete representation of all of the terms of the OTPP or the agreements between the government and the Ontario Teachers' Federation (OTF). Management has acknowledged their agreement with this summary. If these facts are incomplete or incorrect, then our conclusions may change.

"The (Ontario Teachers') pension plan is jointly sponsored by the Ontario government, through the Minister of Education, and the executive of the Ontario Teachers' Federation (OTF). The OTF represents teachers, while the government represents employers.

OTF and the government are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations. In addition, they appoint experienced, professional experts to the pension plan's Board.

Statement of facts and assumptions (continued)

Through a six-member Partners' Committee, the sponsors jointly:

- Set benefit levels
- Establish the contribution rate paid by working teachers (which is matched by the Ontario government and other designated employers)
- Decide how to address funding shortfalls or use surplus funds when they arise"

(Source: <https://www.otpp.com/corporate/plan-governance>)

The governing and other documents that are relevant to the accounting analysis are as follows:

- Teachers' Pension Act (TPA), including Schedule 1
- Partners' Agreement
- Funding Management Policy (FMP)
- Osler's letter dated September 20, 2016; we have not summarized this letter as it should be read in its entirety.

The assets of the pension plan are held by Ontario Teachers' in trust for the beneficiaries of the plan – teachers. The Government does not have unilateral access to the assets of the trust (including changing contribution amounts, taking contribution holidays, or withdrawals). Actions of this nature require negotiation and agreement between the two sponsors.

The following facts and assumptions have been accepted without further analysis or verification:

- As a jointly sponsored plan, the Plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes, before considering the appropriateness of the recognition of an asset or the need for a valuation allowance related to any asset, are appropriate and meet the requirements of PS 3250.
- The Plan's most recent preliminary funding valuation reported a preliminary funding surplus of \$13.2 billion as at January 1, 2016, as reported on the OTPP website. The OTPP's public financial statements showed a deficit for accounting purposes of \$1.8 billion in its financial statements as at December 31, 2015. These financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit.
- As at March 31, 2016, there were no written agreements in place to access the Plan surplus to reduce future minimum contributions or withdraw any amounts from the Plan.
- The OTPP is regulated by the Financial Services Commission of Ontario. Valuation reports must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.

Statement of facts and assumptions (continued)

- Management has received legal commentary about the role of the Superintendent. From this advice, management has concluded that despite this regulation the Province could utilize a surplus through contribution reductions as “Neither the PBA nor the regulations to the PBA (the “Regulations”) require the Superintendent’s consent for surplus to be *utilized* for a contribution holiday or to amend the contribution formula under the OTPP.” Further, although changes to the OTPP text would be required to be registered with the Superintendent, “The authority of the Superintendent to refuse to register an amendment under the PBA (in whole or in part) is limited to circumstances where the amendment is void or if the pension plan with the amendment would cease to comply with the PBA and the Regulations.” (Source: Osler memo dated September 26, 2016).
- The Auditor General’s Office provided a letter dated September 26, 2016 setting out their views. We have read and considered the contents of that letter.

Relevant Extracts from the TPA

Section 5 (1.1) of the TPA states that the total amount of contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year. There can be instances where contributions would not be equal between the sponsors, such as the government’s payments in connection with forgone inflation adjustments.

Section 10 of the TPA provides that the Minister of Education and the executive of OTF may enter into an agreement that provides for, among other things, the joint management of the Plan and the sharing of entitlement to gains or surplus under the Plan and of liability for deficiencies in the pension fund.

Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Partners) have entered into an agreement for the management of the Plan (Partners’ Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners’ Agreement.¹ The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners can deviate from the FMP by agreement.

Relevant extracts from the Partners’ Agreement

The Partners’ Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the OTTP Board, and defining the role of the Board.

Paragraph 74 requires negotiation in good faith regarding changes to the Plan that flow from a valuation that is to be filed with the regulators.

Paragraph 75 of the Partners’ Agreement requires the Partners to advise the Board of OTPP of what changes affecting benefits and contribution rates they are proposing so that the Board can provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

¹ Partners’ Agreement, section 110.

Relevant extracts from the Partners' Agreement (continued)

If the partners cannot agree on the changes required to the Plan, a mediator is appointed to assist the Partners in coming up with an agreement. The mediator is responsible for submitting a report to the partners on his or her views on the positions of the partners and provide a recommendation to the Partners. If the partners do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented. Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

In addition to the clauses identified above, the Partners' Agreement has an appendix called the Funding Management Policy which sets out the Partners' responsibilities in making funding decisions and surplus allocation regarding the Plan.

Relevant extracts from the FMP

The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP.

The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:

- i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
- ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
- iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the Partners are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

Relevant extracts from the FMP (continued)

It is our understanding that the Plan is currently in the Restoration Zone. We understand that contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both partners, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

If the Plan gets to either the temporary improvement zone or the permanent improvement zone, section 4.06 and subsection 5.05(b) of the FMP provides that a benefit improvement can only occur if the partners (the Ontario government and the OTF) have entered into a written agreement governing the manner in which the contribution by the government and other employers may be adjusted to offset any surplus distribution or benefit improvement (temporary or permanent) to be granted.

Application of accounting principles

Specifically, our report addresses the following questions:

1. Is it necessary for a government to have a legally enforceable right to reduce future contributions in order to recognize a Pension Asset under PS 3250?
2. What is the role of legal uncertainty in assessing the government's expectation of future benefit from a Pension Asset?

Our views in this report are confined to these two questions and do not extend to any earlier reports provided by Deloitte or to any other analysis that may have been presented in draft or in any other manner.

Authoritative literature

In our analysis, we considered the pronouncements and guidance in Section 3250 of the CPA Public Sector Accounting Standards Handbook. What we considered to be the most relevant passages from PS 3250 are reproduced below:

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.

Authoritative literature (continued)

.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]

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.

Disclosure

.083 The notes and schedules integral to the financial statements would disclose the methods and judgments applied in accounting for accrued benefit obligations and expenses. Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence.

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.

Limit on the carrying amount of an accrued benefit asset (continued)

.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.

We also considered the following definitions as set out in the glossary of PS 3250:

- 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).
- 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.

Limit on the carrying amount of an accrued benefit asset (continued)

- 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.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

CONSIDERATION OF QUESTION 1

Application of PS 3250 to Joint Defined Benefit Plans

A joint defined benefit plan is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. We would note that paragraph .081 of PS 3250 clearly states that a government should account for its portion of the plan in accordance with the standards for defined benefit plans. As a result, the Province of Ontario accounts for its proportionate share of OTPP and has historically recorded its share as 50% of the plan.

The Province of Ontario's Public Accounts have included a Pension Asset related to OTPP since fiscal 2001/2002. We have been informed that this situation has arisen because, to this point in time, the government's share of the total contributions to the Plan plus the actual investment returns on the Plan's assets have exceeded the government's share of the accumulated retirement benefit expense. The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by S 3250. S 3250.51 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: "Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons."

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (3250.42) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (3250.41). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. 3250.57 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province of Ontario has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on Plan Assets, which is one of the acceptable references suggested on PS 3250.44. We express no view on the actual rates that were chosen.

Application of the limit on the carrying amount of an accrued benefit asset

PS 3250.50 requires that 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. This comparison between the adjusted benefit asset and the expected future benefit informs whether a valuation allowance is required and if so, how much of a valuation allowance should be recorded. (It should be noted that "accrued benefit asset" and "adjusted benefit asset" are defined terms used in S. 3250. As at March 31, 2016, in this particular case, management has represented to us that these two amounts are the same.)

PS 3250.52 contemplates that there are two ways in which a government can benefit from an accrued benefit asset. 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. As such, an expected future benefit would include the ability to either withdraw plan assets from the plan or reduce future contributions.

PS3250.52 also goes on to consider that an accrued benefit asset may become impaired when there is a plan surplus that the government is not entitled to benefit from fully. The paragraphs in the standard that follow determine how a government would go about considering the extent of any impairment, which would give rise to a valuation allowance. In order to make this determination, the government is required to consider the "expected future benefit", which would effectively create a ceiling for the asset. Here the guidance diverges between benefit expected to be realized through future reductions in contributions and those to be realized through withdrawal of surplus.

Specifically with respect to withdrawal of surplus, PS 3250.59 is very clear that expected future benefit can only be asserted where the government has a current legally enforceable right to withdraw assets from the Plan. We considered whether this guidance should be applied to cases where the expected future benefit related to the Pension Asset is expected to be realized through reduced contributions and concluded that the guidance does not apply in this situation; while PS 3250.59 does introduce the concept of a legally enforceable right, it does so solely in the context of a government's future withdrawal of a Plan surplus, and not in the context of a government's reduction of future contributions. We believe it reasonable to conclude that if the standard setters had intended legal enforceability to be the test, they would have included that notion throughout the guidance, instead of only raising it in the context of a withdrawal of surplus. In the situation at hand, the Province is not asserting an expected future benefit based on surplus withdrawal. Instead the Province's position is that the future benefit is expected to be realized through future contribution reductions. Therefore, we do not believe that 3250.59 applies in this case.

Additionally, in forming our view on the application of PS 3250 to Joint Defined Benefit Plans, we noted that there is specific guidance (PS 3250.81) that requires the Government to account for a portion of the Plan in accordance with the standards for defined benefit plans.

For the reasons stated above, we are of the view for Question 1, that legal enforceability of a government's right to access a pension plan surplus through future contribution reductions is not necessary to justify recognition of a Pension Asset. We believe that the guidance in PS 3250 is the primary source of GAAP on this topic and, since it is clear, there is no need to look at any other potential sources of GAAP.

CONSIDERATION OF QUESTION 2

Since we have concluded that legal enforceability is not a necessary requirement to support a government's right to access a pension plan surplus through future contribution reductions, we further considered what role legal considerations should play in the measurement of the Pension Asset. We note that PS 3250.52 requires one to consider "uncertainties as to a government's legal right to use a plan's accounting surplus." Our interpretation of this guidance is that it presents a lower threshold than legal enforceability. Specifically, the amount of Pension Asset that gets recorded needs to be subject to considerations around any legal uncertainties. This consideration will involve significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a Pension Asset.

PS 3250.53 to .58 lay out a mathematical calculation that determines the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in PS3250.055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where realization includes a reduction in future contributions. A valuation allowance is recorded against the Pension Asset to limit the asset value, if necessary, based on this analysis.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. This calculation is further described in PS 3250.56(a), which sets out that the government's calculation of expected future benefit would be 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. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per PS 3250.81 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. The expected future benefit would operate as a ceiling on the Pension Asset value to be recorded in the accounts. For example, if the Pension Asset were \$150, but the expected future benefit calculated as described above were \$100, a valuation allowance of \$50 would be recorded against the Pension Asset and the asset recorded in the government's financial statements would be reduced to \$100.

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in the determination of future minimum contributions required to be made by the government regardless of any surplus. There is no further guidance in S 3250 as to how this calculation should be performed and what restrictions or parameters should be factored into this calculation.

Determining the number of years of contributions to include should involve consideration of legal uncertainty as set out in PS 3250.52. With respect to this uncertainty, we would observe that there are a number of considerations that may be relevant. As part of this analysis, we reviewed Osler's legal letter of September 20, 2016. That letter makes a number of observations about the Plan agreements and governing documents that we will not reiterate here. Osler's do note that legal enforceability does not exist. However, as noted above we do not believe that legal enforceability is required in this case.

Future reductions in contributions will need to be negotiated and agreed between both sponsors, who are required under the Plan governing documents to bargain in good faith. There are a number of factors to consider and it is possible for reasonable professionals to arrive at different conclusions, even when confronted with the same set of facts and circumstances. These considerations will be highly judgmental.

With respect to these judgments, we offer the following observations. We express no opinion on the completeness of this list of observations or the relative importance of each of these points.

- Plan documents and design contemplates the shared nature of the Plan.
- Section 10 of the Partners agreement require that the partners meet every 3 years to discuss changes to the Plan.
- As described to us by management, there was a long history of sharing surpluses through various mechanisms during the 1990's when funding surpluses were more common. The FMP also contemplates a sharing of surpluses.
- As described to us by management, in addition to the history of surplus utilization noted in the facts and assumptions, it is worth noting that the actions taken around inflation indexation and subsequent restoration of those benefits are a recent example of the sharing philosophy governing operation of the OTPP. Starting in 2011 in response to a deficit situation, it was determined that indexation would be reduced for teachers retiring after 2009. Consistent with the 50/50 approach inherent in the Plan operation, the government agreed to make payments (often referred to as "share the pain" payments) into the Plan that would effectively match the value of benefits foregone by teachers. In 2014, 2015 and 2016, surpluses were used to restore some of the lost indexation. This decision results in a decrease in the Province's "share the pain" payments.
- The FMP explicitly considers the possibility of contribution reductions at different funding levels, although both sponsors need to agree. The OTPP's investment performance has consistently outperformed expectations. If this situation continues the funding surplus can be expected to continue to grow. Modelling could be performed to help estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- We also note that Canada Revenue Agency establishes limits for pension surpluses. When these limits are breached, steps need to be taken to reduce the surplus. In such a situation, contribution reductions would be one way to reduce the surplus that would need to be negotiated by the parties within their overall framework for negotiation. Again, modelling could be done to develop expectations as to when these CRA limits could be expected to be reached.
- Contributions are generally borne equally by the Province and the teachers. It may be reasonable to presume that teachers will also want to see contribution reductions at some point. Admittedly, increases in benefits could also use any surplus; however, it may be reasonable to expect that the interests of taxpayers and teachers will need to be weighed in the "good faith" bargaining process such that unequal weighting towards increases in benefits may be unlikely.

- In determining the range of possible outcomes, it is noted that measurement uncertainty may exist (PS 2130.03). This paragraph also notes that many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. As noted in PS 2130.13, "As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements."

However, application and weighting of these and other considerations is a highly judgmental exercise and it is possible that there is a range of reasonable conclusions that may result in a range of reasonable estimates for the valuation allowance to be taken against the Pension Asset. We are unable to opine on whether a valuation allowance is needed, and if so, what a reasonable range of estimates would be.

Given the complexities and degree of judgment involved in these matters, appropriate disclosure is a matter of significance as is recognized in 3250.83 which states, in part, "*Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence*". This importance is also highlighted in the context of joint benefit plans in 3250.93 which requires that the unique nature and terms of any joint plans be disclosed.

We would also note that Deloitte prepared a report dated August 18, 2016 entitled "Asset Ceiling Calculations for the Ontario Teacher's Pension Plan" in conjunction with management that was used by management as part of their analysis to determine that no valuation allowance was required against their Pension Asset as at March 31, 2016. That report was prepared solely to assist management in preparing their own analysis. We were not engaged to and did not express an opinion on the amount of or need for any valuation allowance, nor do we express an opinion on this analysis at this point. Reference to the August 18, 2016 report in this report should in no way be construed to be an opinion on that earlier report.

The ultimate responsibility for the decision on the appropriate application of Canadian Public Sector Accounting Standards for the specific transaction described above rests with management as preparers of the financial statements, who should consult with the Auditor General of Ontario. Our judgment on the appropriate application of Canadian Public Sector Accounting Standards for the specific situation described above is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

This report is intended solely for the information and use of Ms. Karen Hughes and management of the Government of Ontario and is not intended to be and should not be used by anyone other than the above party and the Auditor General of Ontario or for any other purpose. For further clarity, this report should not be distributed to anyone outside those named in the previous sentence, nor should it be quoted from outside this group for any purpose. Please contact Kerry Danyluk, National Director of Accounting Services, regarding any questions about the content of this report (416 775-7183 or kdanyluk@deloitte.ca).

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

From: MacIntyre, Kyle (TBS) []
To: Kwamena, Boafoa (CAB) [Boafoa.Kwamena@ontario.ca]; McLean, David (MOF) [David.McLean@ontario.ca]
Subject: FW: Pension Asset Panel
Date: Friday, September 01, 2017 13:10:07
Attachment 1: PA 2016-17_NR_Backgrounder_Acct Changes_v6_DirADM_20170829.docx
Attachment 2: PA 2016-17_Backgrounder_Qualified Opinion_v1.docx

Just a FYI.

We're also plugging away on the tech deck, which we hope to share later today.

Pw: Ontario150

From: Sullivan, Bryant (TBS)
Sent: August-31-17 2:29 PM
To: MacIntyre, Kyle (TBS)
Cc: DiMuzio, Sofie (TBS)
Subject: RE: Pension Asset Panel

Hi Kyle,

We're addressing the pension issue in both our proactive media backgrounder and our reactive QsAs (below).

For the backgrounder, there are two options in play – one that speaks to all 4 accounting changes in a neutral, factual way, and another that speaks to the basis of the qualified opinion, and the government's position on those items. We're likely going to combine both backgrounders into one so it speaks to both the changes, and the basis for qualification. This can be used to supplement the technical briefing.

We're also trying to get a copy of the Deloitte summary letter and the EY analysis letter (if there is one). We can also reference the Panel's report on [OPSEUPP/OTPP](#), and

the supplemental on [HOOPP/CAATPP](#).

Bryant

Q. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. What was the panel's rationale for its decision?

The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan, confirming the independent panel's recommendation.

Q. The Auditor General was critical of the panel's authority and credibility. What's your response to this?

The panel members are all highly-qualified experts in their field. They were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and public sector accounting standards:

- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.

- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.
- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.
- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

The panel was completely independent from government, and arrived at its advice based on its own analysis of this complex issue.

Q. How much did you pay the panel members? Do you think that money was justified?

The total cost of the panel was \$221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to \$2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

From: MacIntyre, Kyle (TBS)
Sent: August-31-17 8:57 AM
To: DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS)
Subject: Pension Asset Panel

Hi Sof / Bryant –

Can you have one of your peeps send me all the products we are using/developing to address the pension asset issue for the roll out of PA?

thx

K.

ment PA 2016-17_NR_Backgrounder_Acct Changes_v6_DirADM_20170829.docx (50688 Bytes) cannot be converted to PDF

Attachment PA 2016-17_Backgroundunder_Qualified Opinion_v1.docx (43008 Bytes) cannot be converted to PDF format.

From: McLean, David (MOF) []
To: Thompson, Scott (MOF) [Scott.Thompson@ontario.ca]; Schuurman, Tim (MOF) [Tim.Schuurman@ontario.ca]
CC: Birks, Ryan (MOF) [Ryan.Birks@ontario.ca]
Subject: FW: Pension Asset Panel
Date: Friday, September 01, 2017 14:05:22
Attachment 1: PA 2016-17_NR_Backgrounder_Acct Changes_v6_DirADM_20170829.docx
Attachment 2: PA 2016-17_Backgrounder_Qualified Opinion_v1.docx

FYI.

They're still plugging away on the tech deck, which they hope to share later today.

Pw: Ontario150

From: Sullivan, Bryant (TBS)
Sent: August-31-17 2:29 PM
To: MacIntyre, Kyle (TBS)
Cc: DiMuzio, Sofie (TBS)
Subject: RE: Pension Asset Panel

Hi Kyle,

We're addressing the pension issue in both our proactive media backgrounder and our reactive QsAs (below).

For the backgrounder, there are two options in play – one that speaks to all 4 accounting changes in a neutral, factual way, and another that speaks to the basis of the qualified opinion, and the government's position on those items. We're likely going to combine both backgrounders into one so it speaks to both the changes, and the basis for qualification. This can be used to supplement the technical briefing.

We're also trying to get a copy of the Deloitte summary letter and the EY analysis letter

(if there is one). We can also reference the Panel's report on [OPSEUPP/OTPP](#), and the supplemental on [HOOPP/CAATPP](#).

Bryant

Q. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the Province on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Q. What was the panel's rationale for its decision?

The Pension Asset Expert Advisory Panel recommended that the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP) should be recognized as an asset in Ontario's financial statements.

The panel said that:

- Recognizing the asset will provide a faithful representation of the Province's financial position.
- The accounting surplus in the plan has a future economic benefit.
- The government controls access to that accounting surplus.
- The accounting surplus exists as the result of past transactions and events.
- It would be misleading not to recognize the Province's share of the assets in Public Accounts.

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan, confirming the independent panel's recommendation.

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- **Patricia O'Malley (panel chair)** is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board and was a member of the International Accounting Standards Board from 2001 to 2007.

- **Murray Gold** is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP.
- **Uros Karadzic** is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting.
- **Paul Martin** is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

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The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

From: MacIntyre, Kyle (TBS)
Sent: August-31-17 8:57 AM
To: DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS)

Subject: Pension Asset Panel

Hi Sof / Bryant –

Can you have one of your peeps send me all the products we are using/developing to address the pension asset issue for the roll out of PA?

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ment PA 2016-17_NR_Backgrounder_Acct Changes_v6_DirADM_20170829.docx (50688 Bytes) cannot be converted to PDF

Attachment PA 2016-17_Backgrounder_Qualified Opinion_v1.docx (43008 Bytes) cannot be converted to PDF format.

From: MacIntyre, Kyle (TBS) []
To: Orencsak, Greg (TBS) [Greg.Orencsak@ontario.ca]; Thompson, Scott (MOF) [Scott.Thompson@ontario.ca]
CC: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: FW: Pension accounting comparison charts - AG'S vs. OPCD'S approach with restatement
Date: Sunday, October 02, 2016 16:47:34
Attachment 1: image001.png
Attachment 2: image002.png
Attachment 3: Pension Ajustment Charts.pptx

FYI. The 2nd chart is interesting.

K.

From: Petsche, Nadine (TBS)
Sent: October-02-16 4:03 PM
To: MacIntyre, Kyle (TBS)
Cc: Veinot, Cindy (TBS)
Subject: Fw: Pension accounting comparison charts - AG'S vs. OPCD'S approach with restatement

Fyi

From: Sun, Alicia (TBS) <Alicia.Sun@ontario.ca>

Sent: Sunday, October 2, 2016 4:01 PM

To: Petsche, Nadine (TBS)

Subject: Pension accounting comparison charts - AG'S vs. OPCD'S approach with restatement

Nadine,

Here you are. This reflects Pauline's latest number (0923) with restatement.

Alicia

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Ma, Patricia (TBS) <Patricia.Ma2@ontario.ca>

Sent: Friday, September 23, 2016 2:49 PM

To: Petsche, Nadine (TBS)

Cc: Sun, Alicia (TBS)

Subject: RE: Review: Valuation Allowance

Hi Nadine,

Please find attached, proposed graphs mentioned below and to be reviewed at this afternoon's meeting.

Thank you,

Patricia

From: Petsche, Nadine (TBS)

Sent: September-23-16 4:45 AM

To: Ma, Patricia (TBS); Sun, Alicia (TBS)

Cc: Veinot, Cindy (TBS)

Subject: Fw: Review: Valuation Allowance

Alicia/Patricia,

Would like a couple of line graphs on the historical results. (10 years) compared under our approach vs. The AG's approach. Key is pension expense over the years, net surplus/deficit over the years, net debt. And net debt over GDP. Can you please prepare these for this am, using the data as calculated by Pauline. Thanks. Nadine

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>

Sent: Thursday, September 22, 2016 7:22 PM

To: Fong, Pauline (TBS)

Cc: Petsche, Nadine (TBS)

Subject: FW: Review: Valuation Allowance

Pauline – I'd like to send the first tab to the auditor to ensure they understand the impact of the downturns in the market. I don't want to send this entire workbook before checking with you. Do they already have the rest of this?

Thanks,

From: Fong, Pauline (TBS)

Sent: September-21-16 4:37 PM

To: Raymond, Martin (CA - Montreal) (maraymond@deloitte.ca)

Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS)

Subject: FW: Review: Valuation Allowance

Thank you.

From: Raymond, Martin (CA - Montreal) [<mailto:maraymond@deloitte.ca>]

Sent: September-21-16 4:10 PM

To: Fong, Pauline (TBS)

Cc: Veinot, Cindy (TBS); Patel, Bharat (TBS); Colley, Matthew (CA - Toronto); Danyluk, Kerry (CA - Toronto)
Subject: RE: Review: Valuation Allowance

Pauline

I did look into your file and seems reasonable vs the previous illustrations that we have exchanged, just one adjustment

You will see in liability sheet I have a line 29 adjustment for other unamortized (this is the transitional asset amortization that goes back to the initial application which is to be included in the test of unamortized losses) this likely affects your 2002 / 2003 valuation allowance.

Also to note is the flaw of the PS3250 that I have highlighted in previous communication :

- In 2008 we did have very bad asset returns and this creates a significant income through reduction of valuation allowance
- In opposite, the years 2010 and 2011 had good returns but you have significant expense through increase of valuation allowance

Martin Raymond, FSA, FCIA
Partner – Audit – Actuarial services

Deloitte

1190 Avenue des Canadiens-de-Montréal, Montréal, H3B 0M7, Canada

Tel / Direct : 514-393-7367

Fax : 514-390-4104

maraymond@deloitte.ca | www.deloitte.ca

Please consider the environment before printing.

Deloitte is proud to be an Official Supplier of the Canadian Olympic team

De : Fong, Pauline (TBS) [<mailto:Pauline.Fong@ontario.ca>]

Envoyé : 21 septembre 2016 10:36

À : Raymond, Martin (CA - Montreal) <maraymond@deloitte.ca>

Cc : Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>

Objet : Review: Valuation Allowance

Hi Martin,

I mocked up the annual valuation allowance based on our discussion yesterday. We went through it with Cindy this morning and she would like you to take a look at the mock-up to confirm that it is consistent to your understanding. In particular bringing the unamortized gain/loss from market related values to market values. Thank you in advance.

Regards,

Pauline Fong, CPA, CA

Senior Analyst, External Reporting

Office of the Provincial Controller Division | Office of the Treasury Board | Treasury Board Secretariat

7 Queen's Park Crescent, Frost South, 2nd Floor, Toronto, ON, M7A 1Y7

Phone: (416) 212-4007

Pauline.fong@ontario.ca

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TEAM-ÉQUIPE

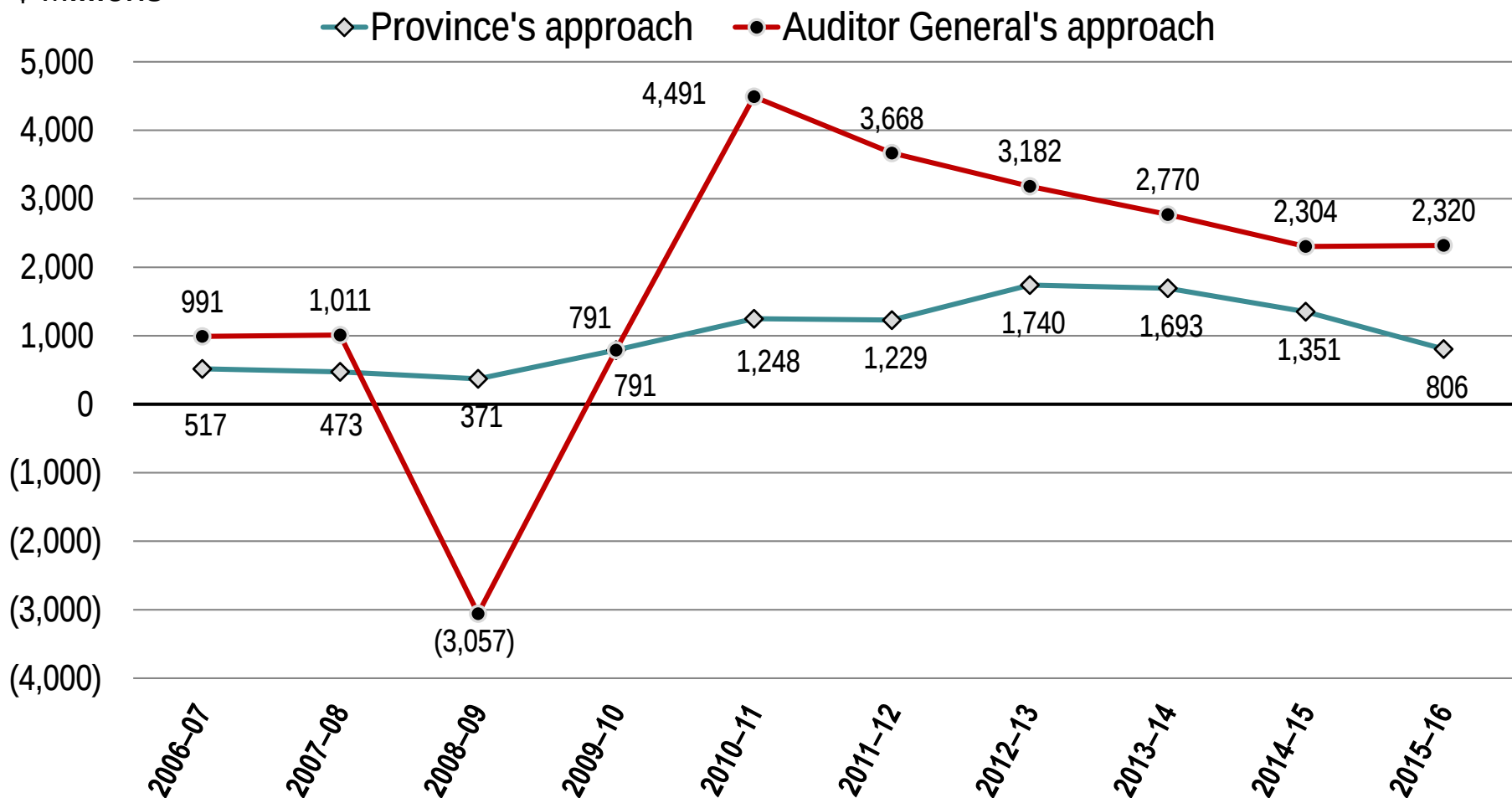
OFFICIAL SUPPLIER
FOURNISSEUR OFFICIEL

TBS

Pension expense comparison — 10-year

Chart 1

\$ Millions

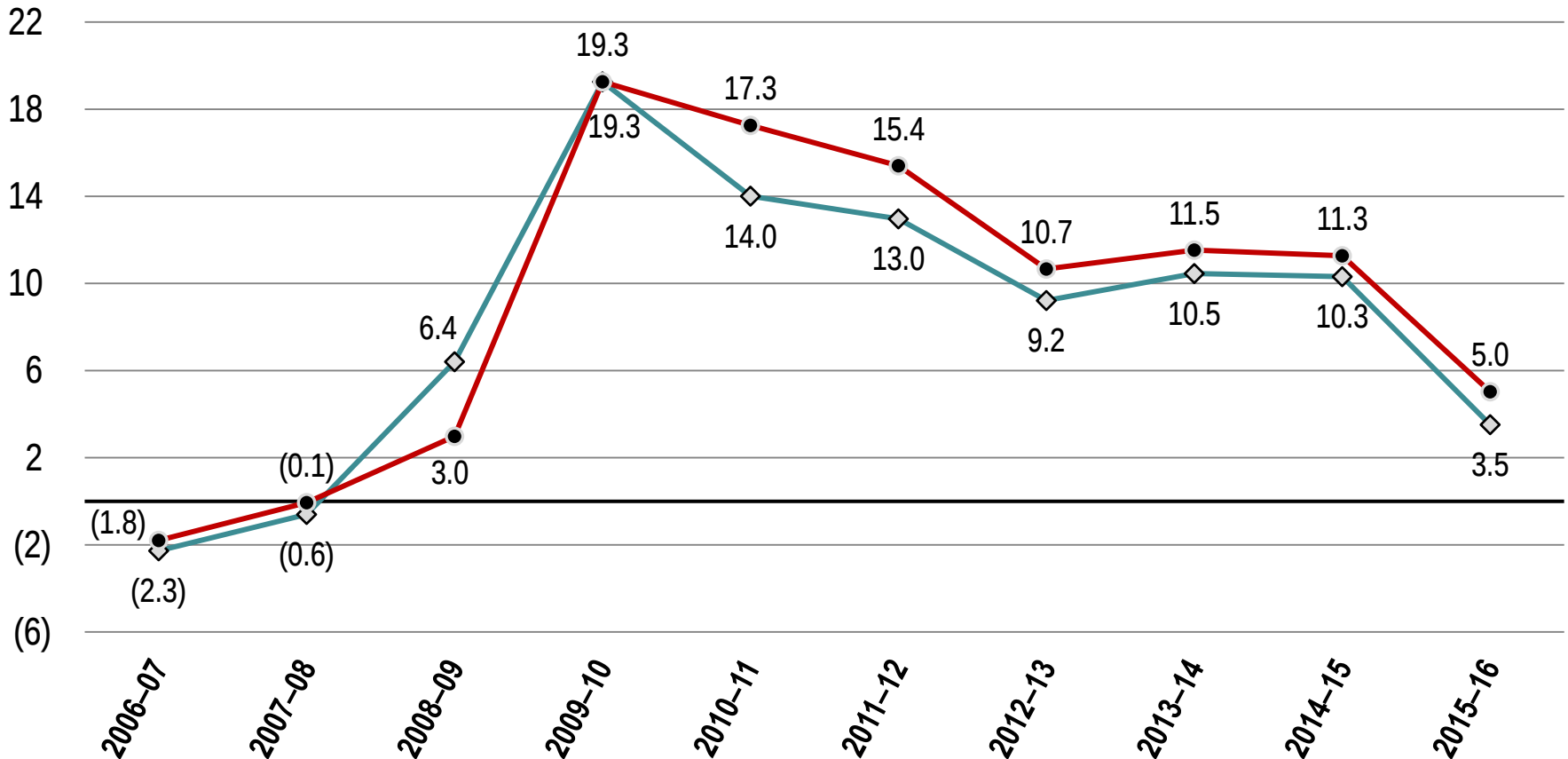


Surplus/(deficit) comparison — 10-year

Chart 2

\$ Billions

—◇— Province's approach —●— Auditor General's approach

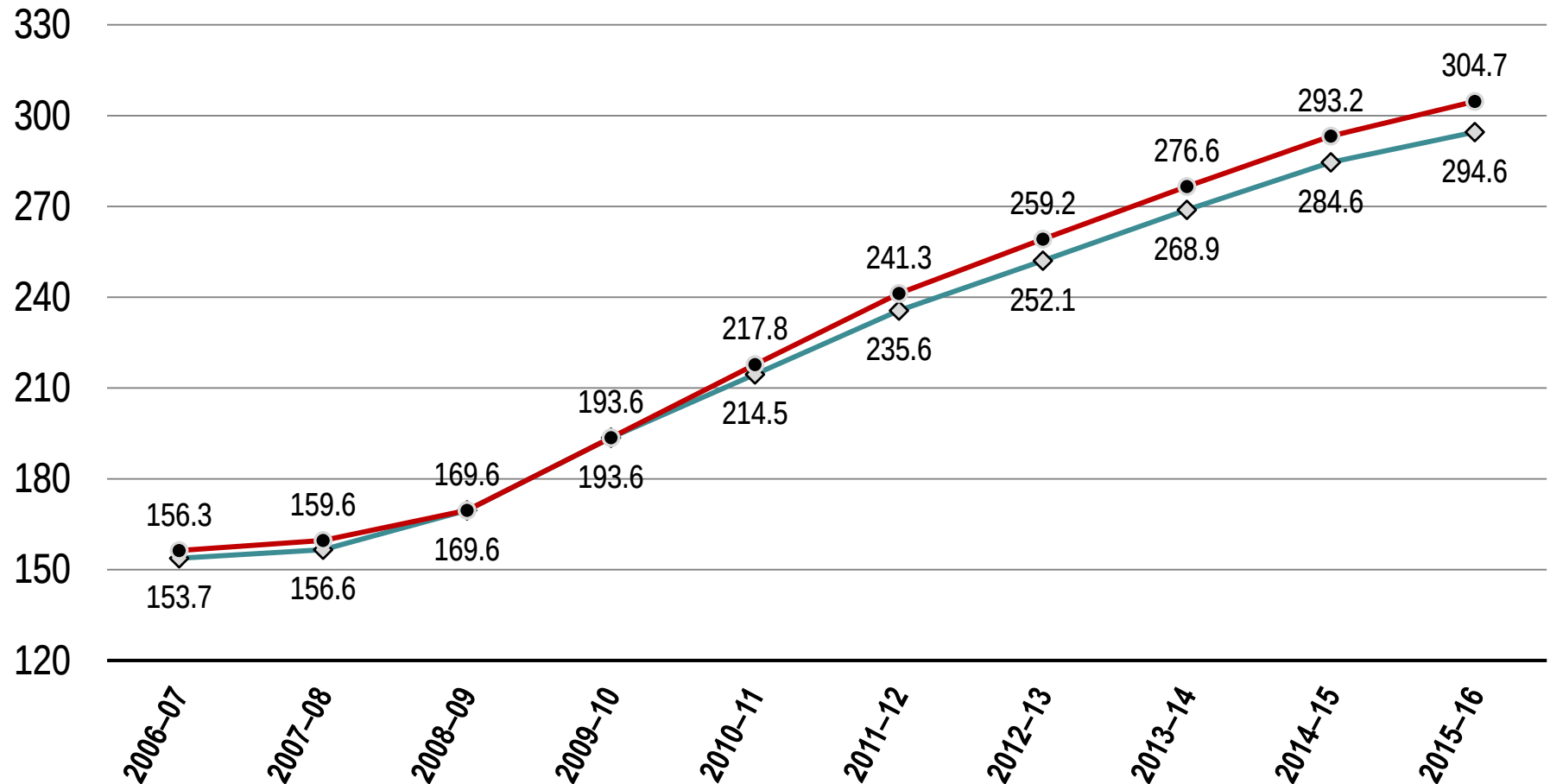


Net debt comparison — 10-year

Chart 3

\$ Billions

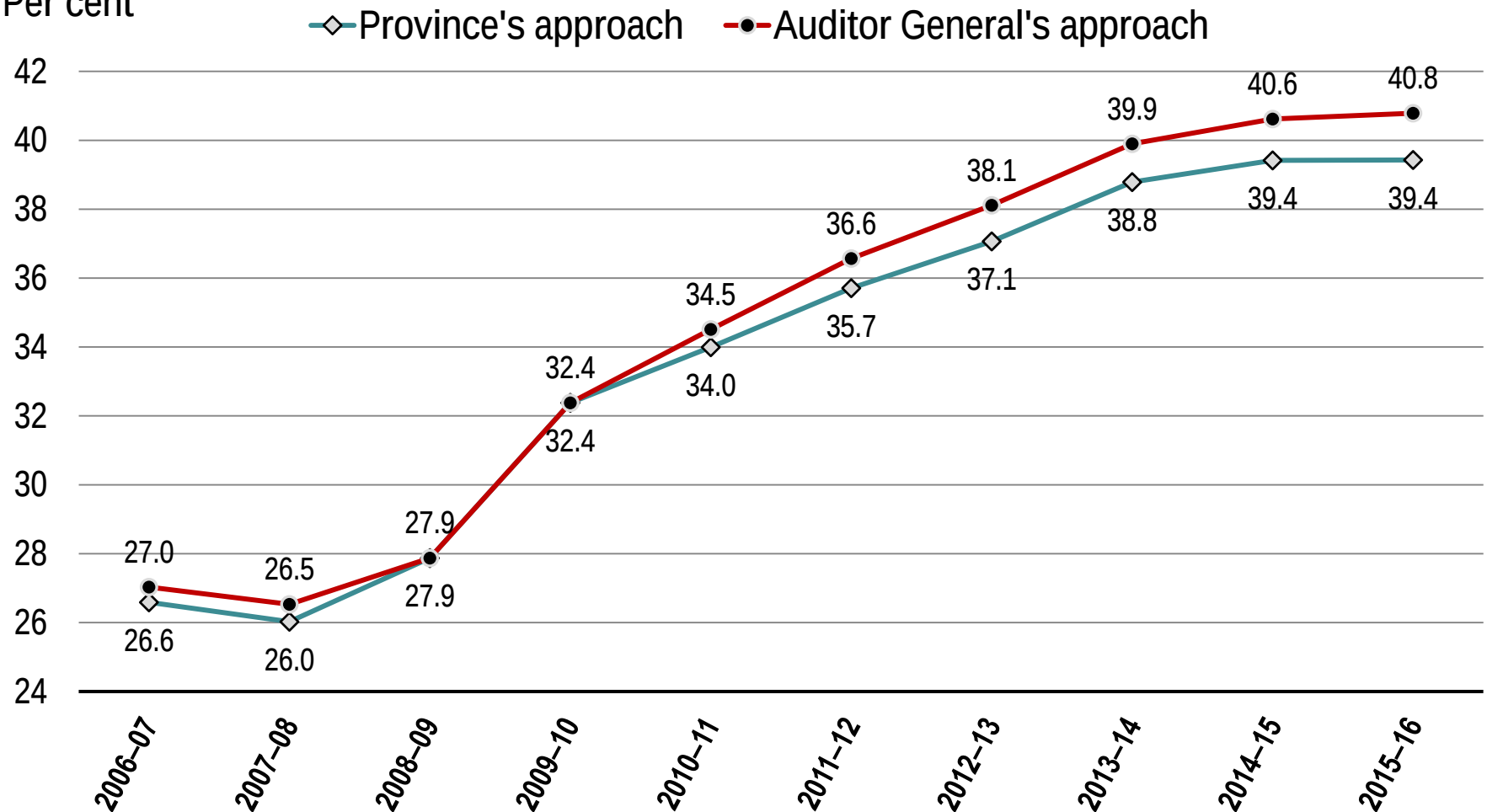
◆ Province's approach ● Auditor General's approach



Net debt-to-GDP comparison — 10-year

Chart 4

Per cent



From: McLean, David (MOF) []
To: Mayman, Gadi (OFA) [Gadi.Mayman@ofina.on.ca]; Thompson, Scott (MOF) [Scott.Thompson@ontario.ca]
Subject: FW: Pension asset expert advisory panel report
Date: Tuesday, February 07, 2017 16:37:59
Attachment 1: 17 02 06 Executive Summary final.docx
Attachment 2: ATT00001.htm
Attachment 3: 17 02 06 Pension Asset Expert Advisory Panel Report Final.docx
Attachment 4: ATT00002.htm
Attachment 5: TBS Transmittal Letter.docx
Attachment 6: ATT00003.htm

Final report and transmittal letter attached.

From: MacIntyre, Kyle (TBS)
Sent: February 7, 2017 2:20 PM
To: Bromm, William (CAB); Kwamena, Boafoa (CAB); McLean, David (MOF)
Subject: Fwd: Pension asset expert advisory panel report

Begin forwarded message:

From: "Angus, Helen (TBS)" <Helen.Angus@ontario.ca>
Date: February 7, 2017 at 2:15:56 PM EST
To: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
Subject: FW: Pension asset expert advisory panel report

From: Patricia O'Malley
Sent: February 7, 2017 2:15:45 PM (UTC-05:00) Eastern Time (US & Canada)
To: Sandals, Liz (TBS)
Cc: Angus, Helen (TBS)
Subject: Pension asset expert advisory panel report

Dear Ms. Sandals

On behalf of the Panel, I am attaching a cover letter and final copies of our report and the executive summary.

Sincerely

Tricia O'Malley

Attachment 17 02 06 Executive Summary final.docx (32256 Bytes) cannot be converted to PDF format.

Attachment 17 02 06 Pension Asset Expert Advisory Panel Report Final.docx (104448 Bytes) cannot be converted to PDF format

By email

210 Cambria Street
Stratford, Ontario
N5A 1J1

Hon. Liz Sandals
President of the Treasury Board
Treasury Board Secretariat
Room 4320, 99 Wellesley Street West
Toronto, Ontario
M7A 1W3

February 6, 2017

Re: Pension Asset Expert Advisory Panel Report

Dear Ms. Sandals

As announced on November 10, 2016, the government formed an independent expert advisory panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's net pension assets.

The Panel's mandate was to provide advice on both the criteria required to be met to recognize a net pension asset, as well as how such assets should be valued.

After internal briefings and a second meeting with the Auditor General on February 3, the Panel has completed its work on the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan and has finalized the report and executive summary attached.

On behalf of the Panel, I would like to express our appreciation for the co-operation and assistance we received from everyone involved in this issue.

Yours truly

A handwritten signature in black ink that reads "Patricia O'Malley". The signature is written in a cursive, flowing style.

Patricia O'Malley, FCPA, FCA
Chair, Pension Asset Expert Advisory Panel

Cc: Ms. Helen Angus, Deputy Minister, TBS

From: McLean, David (MOF) []
To: Ize-Dukuze, Marilyn (MOF) [Marilyn.Ize-Dukuze@ontario.ca]; Jackson, Kelly (MOF) [Kelly.Jackson2@ontario.ca]
Subject: FW: FINAL PO approved - Expert Panel Comms Products - Backgrounder + News Release
Date: Thursday, November 10, 2016 13:22:03
Attachment 1: Backgrounder - Pension Asset Expert Advisory Panel - 10NOV2016 FINAL PO APPROVED clean.doc
Attachment 2: ATT00001.htm
Attachment 3: NR - Expert Panel Appointed - 10NOV2016 - FINAL PO APPROVED clean.doc
Attachment 4: ATT00002.htm

FYI only.

David McLean

Executive Assistant and Special Policy Advisor

Deputy Minister's Office

Ministry of Finance

416-327-0192

david.mclean@ontario.ca

From: MacIntyre, Kyle (TBS)
Sent: November 10, 2016 12:01 PM
To: Bromm, William (CAB); McLean, David (MOF); Farrow, Alicia (CAB)
Subject: Fwd: FINAL PO approved - Expert Panel Comms Products - Backgrounder + News Release

FYI. The plan is to send out a NR and backgrounder on the Panel appointment...tracking to a potential 1pm release.

Begin forwarded message:

From: "Jackson, Sarah (TBS)" <Sarah.Jackson@ontario.ca>
Date: November 10, 2016 at 11:50:12 AM EST
To: "Ostergard, Matt (TBS)" <Matt.Ostergard@ontario.ca>, "Nelson, Dane (TBS)" <Dane.Nelson@ontario.ca>, "Pichelli, Jason (TBS)" <Jason.Pichelli@ontario.ca>, "Tedesco, Lauren (TBS)" <Lauren.Tedesco@ontario.ca>, "Jancik, Mike (TBS)"

<Mike.Jancik@ontario.ca>

Cc: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>, "Simone, Nicole (TBS)" <Nicole.Simone@ontario.ca>, "White, Alexander (TBS)" <Alexander.White@ontario.ca>, "Morris, David (TBS)" <David.Morris@ontario.ca>, "Miller, Amanda (TBS)" <Amanda.Miller@ontario.ca>, "Sullivan, Bryant (TBS)" <Bryant.J.Sullivan@ontario.ca>, "DiMuzio, Sofie (TBS)" <Sofie.DiMuzio@ontario.ca>, "Wesley, Jason (TBS)" <Jason.2Wesley@ontario.ca>, "Tam, Nelson (TBS)" <Nelson.Tam@ontario.ca>

Subject: FINAL PO approved - Expert Panel Comms Products - Backgrounder + News Release

Hi all,

Confirming the attached products are COPO approved (no changes). These will be shared with the chair shortly, along with the media package.

Once everything is live, I will send updated versions with the backgrounder links in the NR. I will also send the French at that point.

Matt- do you mind confirming once the Minister has signed the last letter so we know we are clear to post at 1:00pm? We will wait for final confirmation from you.

Thanks again all.

Sarah

Sarah Jackson

Senior Communications Consultant

Treasury Board Secretariat

Ph: 416-212-7790

Email: Sarah.Jackson@ontario.ca

Pension Asset Expert Advisory Panel Members

November 10, 2016

In preparing the 2015-16 Public Accounts of Ontario, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the province's jointly-sponsored pension plans. Despite best efforts to resolve concerns, the province's professional accounting staff and the Auditor General continue to have differences of opinion. The government committed to forming an independent expert panel to deliver advice and recommendations on this issue.

The following four members have been appointed to the Pension Asset Expert Advisory Panel:

- Tricia O'Malley (Chair)
- Murray Gold
- Uros Karadzic
- Paul Martin

Tricia O'Malley has been a member of the Canadian Actuarial Standards Oversight Council since 2012, serving as Chair since January 2015. She has also been a member of the Canadian Accounting Standards Oversight Council since 2013. She is currently a member of the Board and Chair of the Audit Committee of Assuris, which guarantees benefits on policies written by life insurers in Canada.

Ms. O'Malley was Chair of the Canadian Accounting Standards Board (AcSB) from 2009 to 2010 and also served as its first full-time Chair from 1999 to 2001. She was a member of the International Accounting Standards Board (IASB) from 2001 until 2007 and she served on its staff as Director of Implementation Activities from 2007 to 2009. Supported by AcSB staff, she chaired the International Forum of Accounting Standard Setters, an informal association of bodies with a responsibility for setting or reviewing accounting standards in their various jurisdictions, from 2011 until April 2016.

Before joining the AcSB in 1999, Ms. O'Malley spent 17 years as a partner in the National Assurance and Professional Practice Group of KPMG Canada, where she consulted on complex accounting issues, focusing on financial instruments and structured finance transactions.

In 2011, Ms. O'Malley was named as one of Canada's Top 100 Most Powerful Women by the Women's Executive Network. In 2012, she received the Queen Elizabeth II Diamond Jubilee Medal. In June 2016, Ms. O'Malley received a Doctor of Laws *honoris causa* degree from the University of Waterloo.

Murray Gold is a leading practitioner and senior pension and benefits partner at Koskie Minsky LLP. Mr. Gold advises governing boards of public sector, multi-employer and jointly-trusted pension and benefits plans across Canada on compliance issues and best practices. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold has been lead counsel for Koskie Minsky in regard to pension reform initiatives and litigation in Newfoundland, New Brunswick, Ontario and Alberta, and health benefit plan reforms in Ontario and British Columbia. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions, and in 2016, he served as a first director of the Ontario Retirement Pension Plan Administration Corporation.

Mr. Gold is a Fellow of the Ontario Teachers' Federation, recognizing his work with the Ontario Teachers' Pension Plan.

Murray served on the firm's executive committee and then as the firm's managing partner from 2012-2016.

Uros Karadzic is a partner at EY's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting. As a pension actuary, Mr. Karadzic has extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

Mr. Karadzic has advised Canadian and multinational clients on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration. His primary focus is in:

- Pension audit and internal audit
- Pension and benefit issues in merger and acquisition transactions
- Ongoing advisory services on retirement benefit plans

Since 2006, Mr. Karadzic has been a Fellow of the Society of Actuaries (FSA) and a Fellow of the Canadian Institute of Actuaries (FCIA).

Paul Martin is Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP. He is a respected leader with more than 35 years of experience. He has significant expertise with Public Accounting Standards and pension plans including the shared risk/targeted benefit models. Mr. Martin is a past president of the New Brunswick Institute of Chartered Accountants and currently serves as a member of the CPA Canada Employment Benefits Task Force.

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications, 416-327-4023

**ontario.ca/treasury-board-
secretariat**
Disponible en français

Ontario Names Expert Panel to Review Pension Assets

Independent Panel to Deliver Recommendations on Accounting for Pension Assets

NEWS

November 10, 2016

Ontario has appointed four members [\[link to Backgrounder with bios\]](#) to its newly established Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

The members of this short-term advisory body include Murray Gold, Uros Karadzic, Paul Martin and chair Tricia O'Malley. The panel has been appointed by President of the Treasury Board Liz Sandals, with members having expertise in the areas of jointly-sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

Panel members will also provide advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

QUOTES

"We look forward to receiving the expert panel's report and recommendations on this important accounting issue. This independent advice will guide our discussions as we work toward agreement with the Auditor General of Ontario on the future preparation of the province's financial statements."

— Liz Sandals, President of the Treasury Board

"Pension accounting is a complex issue. I look forward to bringing together the unique professional skillsets and perspectives of the advisory panel and to delivering recommendations that will help clarify how public sector accounting standards are interpreted and applied."

— Tricia O'Malley, Chair, Pension Asset Expert Advisory Panel

QUICK FACTS

- In preparing the 2015-16 Public Accounts of Ontario, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the province's jointly sponsored pension plans. Despite best efforts to resolve concerns, the province's professional accounting staff and the Auditor General continue to have differences of opinion, and the government committed to forming an independent expert panel to deliver advice and recommendations on this issue.
- The panel's report is due to the President of the Treasury Board. It will be shared with the Auditor General of Ontario and be made public in early 2017.
- Public Accounts is a retrospective report that compares Ontario's actual performance to what was planned in the Budget.

- Treasury Board Secretariat prepares the Public Accounts in accordance with the principles for governments recommended by the PSAB, which independently establishes accounting standards for the public sector in Canada.
- The objective of PSAB standards is to meet the needs of the users of financial statements by providing the information needed for accountability and decision making.

ADDITIONAL RESOURCES

Pension Asset Expert Advisory Panel [[link to Backgrounder with bios](#)]

[Pension Asset Expert Advisory Panel Terms of Reference](#)

[2015-16 Public Accounts](#) and explore supplementary information available through new data visualization tools

[Watch a video explaining Public Accounts](#)

Learn about the government's [fiscal cycle](#)

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications, 416-327-4023

**ontario.ca/treasury-board-
secretariat**
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From: Thompson, Scott (MOF) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: FW: Meeting with the Auditor General
Date: Saturday, October 15, 2016 19:16:27
Attachment 1: Pension Asset Expert Advisory Panel_Next Steps_Oct 14 2016.pptx

From: Angus, Helen (MIT)
Sent: Saturday, October 15, 2016 7:16:26 PM (UTC-05:00) Eastern Time (US & Canada)
To: Thompson, Scott (MOF)
Subject: Fw: Meeting with the Auditor General

For discussion with the SOC tomorrow. I'll call him around 1 pm as he suggested. I'll let you know if the outcome of the call. Hopefully, you are having a decent break over the weekend.

Helen

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Simone, Nicole (TBS) <Nicole.Simone@ontario.ca>
Sent: Saturday, October 15, 2016 6:56 PM
To: Angus, Helen (MIT)
Subject: RE: Meeting with the Auditor General

Helen – attached is the latest deck. This is the same as the one that folks were going to take the Secretary through yesterday. They are also working on a business case, but aren't in a position to share anything yet.

From: Angus, Helen (MIT)
Sent: October 15, 2016 5:54 PM
To: Simone, Nicole (TBS)
Subject: Fw: Meeting with the Auditor General

FYI. Any chance someone could email me the latest thinking on the panel? Many thanks!

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Angus, Helen (MIT) <Helen.Angus@ontario.ca>

Sent: Saturday, October 15, 2016 5:46 PM

To: Orsini, Steve (CAB)

Subject: Re: Meeting with the Auditor General

Will do.

Sent from my iPad

On Oct 15, 2016, at 5:38 PM, Orsini, Steve (CAB) <Steve.Orsini@ontario.ca> wrote:

Helen,

The AG reached out to my office asking for a meeting. I am scheduled to meet on Tuesday. I would like to get her thoughts on the independent panel review. Can you call me tomorrow any time after 1:00 for a brief discussion. You can call the office at 416-325-7628.



Pension Asset Expert Advisory Panel

Next Steps

October 14, 2016

Decisions to make

- Panel
 - Number of members
 - Members
 - Chair (and role of chair in decision making)
- Support for panel
 - Report writer
 - Project management
 - Legal support
- Using the results of the report from the Panel
- Other

Composition of Panel



3 Person Panel

(all have confirmed interest)

Accounting expert – **Bill Matthews**
(Comptroller General Canada)

Actuarial expert - **Uros Karadzic**
(Partner EY; member PSAB Task Force)

Governance expert – **Murray Gold**
(Partner – Koskie Minsky)

4 Person Panel – 3 person + Chair

(interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter

Sheila Fraser – Accountant, former Federal Auditor General

David Smith – Accountant, former Chairman of PwC Canada

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

Support for panel – report writer



- Report writer – requirements:
 - Knowledge of pension accounting and actuarial modelling
 - Writing skills

- Considerations
 - PwC – lead by Lucy Durocher
 - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
 - Knowledgeable on plans and issues
 - Member of PSAB Task Force
 - Panel hires independent consultant
 - OPS will complete pre-work for procurement of another firm

Support for panel – project management



- Short timeline – Report due by December 31, 2016
- Role
 - Coordination and scheduling
 - Liaison with Province
 - Interim reports
 - Coordination with TBS communications re: final report
 - Administrative reporting
- Potential candidates
 - Process in place to identify senior manager/director from OIAD, supported by others as necessary

Support for panel – legal support



- Existing opinions
 - MAG
 - Oslers
 - Koskie Minsky – Ontario vs. BC

- Additional work required
 - Comparison of Ontario plans to New Brunswick Target Benefit Plans
 - Understanding of governance structures for HOOPP and CAATTPP
 - Multi-employer plans vs jointly sponsored plans

Using the result of the report from the panel



- Provision of report to Auditor General
 - Any other contact with AG during the process
 - Panel may invite AG to discuss issue
 - Panel may request written document of AG's position
- Communications strategy
 - Commitment to make the report public
- Use of Deloitte summary if made available
 - May align or conflict with report of panel

Other



- Valuation opinion
 - Only OTPP? Expected increase in value of OPSEU asset – less than \$250 million
 - Start as soon as panel completes its work – procurement timing
- Responding to AG's 2016 Report -- Chapter 2
 - Expecting section on pension accounting; will be released prior to completion of work by panel; impact on panel's work
- Meeting with PSAB Task Force on employee future benefits -- timing

APPENDIX – POTENTIAL PANEL MEMBERS -- BIOS

Potential panel members



Name	Accounting Expertise	Actuarial Expertise	JSPG Governance Expertise	Interest confirmed
Bill Matthews (Comptroller General – Canada)	Yes			Yes
Uros Karadzic (Partner EY – member PSAB Task Force)	Yes	Yes		Yes
Murray Gold (Lawyer – Koskie Minsky)			Yes	Yes
Jim Leech (former CEO OTPP)			Yes	Yes
Tricia O'Malley (former KPMG partner and standard setter)	Yes			No
Sheila Fraser (former Federal Auditor General)	Yes			No
David Smith (former PwC Chairman)	Yes			No
Wayne Strelloff (former AG BC and Sask.)	Yes			Yes
Scott Simpson (Retired - former OTF Actuary)		Yes	Yes	Yes
Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
Philip Morse (Actuary – Willis Towers Watson)		Yes		No
Darlene Himick (Professor – U of Ottawa)	Yes			No
Christine Wiedman (Professor – U of Waterloo)	Yes			No

Bill Mathews – Comptroller General of Canada, PSAB Board Member



Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Before joining the Expenditure Management Sector, Mr. Matthews worked at the Office of the Comptroller General for seven years, serving as the Assistant Comptroller General in the Financial Management and Analysis Sector from 2009 to 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He holds a Bachelor of Commerce from Dalhousie University.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

Uros Karadzic – Actuary, Partner EY, Member PSAB Pensions Task Force



Uros Karadzic is a partner and the national leader of the Reward practice. He is a pension actuary located in Toronto, Canada.

His primary focus is in the following areas:

- Pension audit and internal audit;
- Pension and benefit issues in Merger & Acquisition transactions; and
- On-going advisory services on retirement benefit plans.

He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

M&A transaction and integration, supporting clients by clearly identifying and measuring risks and costs. He also advised on appropriate measures to reduce those costs, focusing on post-acquisition funding requirements.

Murray Gold – Koskie Minsky



Murray Gold is a senior pension and benefits partner (see: Chambers Canada 2017 Rankings) with a national pension and benefits practice. He is a leading practitioner in the area of pensions and employee benefits. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions.

Mr. Gold advises governing boards of public sector and jointly trustee pension and benefits plans across Canada in regard to compliance and best-practice issues. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario and Alberta, and in health benefit plan reforms in Ontario and British Columbia. He represented stakeholder interests in insolvency proceedings involving Air Canada in 2003 and 2009, and Stelco in 2005. In 2009 – 2010, he lead Koskie Minsky's team in establishing Canada's first funded postretirement health care trust in the auto sector. This involved the creation of new tax laws governing the tax treatment of postretirement benefit trusts and the negotiation and implementation of arrangements to govern Canada's first funded employee life health trust.

Murray Gold is a Fellow of the Ontario Teachers' Federation, an honor in recognition of his work in regard to the Ontario Teachers' Pension Plan.

Murray served on the Firm's Executive Committee and then as the Firm's Managing Partner from 2012-2016.

Jim Leech – former CEO of Ontario Teacher's Pension Plan



Mr. Leech joined Teachers' in 2001 to lead Teachers' Private Capital and was appointed President & CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

Before joining Teachers', Mr. Leech was president and CEO of Unicorp Canada Corporation, one of Canada's first public merchant banks, and Union Energy Inc., then one of North America's largest integrated energy and pipeline companies. During the 1990s, he guided two start-up technology companies - Disys Corporation and Kasten Chase Applied Research - to the revenue generation stage.

Mr. Leech holds a B.Sc. (Hons Math and Physics) from the Royal Military College of Canada and an MBA from Queen's University. He is also a graduate of the Institute of Corporate Directors.

Mr. Leech is chair of the board of Toronto General and Western Hospital Foundation. He is a member of the board of the MasterCard Foundation and was a founding director of Right To Play International. He has been named Chancellor-designate of Queen's University, effective July 1, 2014 and currently chairs the advisory board of the Queen's School of Business. Mr. Leech also serves on the advisory board for The Learning Partnership, the advisory council for the Toronto Region Board of Trade and the Toronto Financial Services Leadership Council. In addition, Mr. Leech is a member of the government of Ontario's Economic Advisory Panel.

In 2012, Mr. Leech was awarded the Queen's Diamond Jubilee medal in recognition of his work with the True Patriot Love Foundation. In 2013, he co-authored (with Globe and Mail Senior Writer Jacquie McNish) a book on pension reform called *The Third Rail: Confronting our pension failures*. He has announced his retirement effective December 31, 2013.

Wayne Streliaoff, FCPA, FCA – former Auditor General



Mr. Streliaoff has served as both the Auditor General of British Columbia (2000-2006) and the Provincial Auditor of Saskatchewan (1990-2000). He was the Assistant Director of Public Sector Accounting and Auditing at the Canadian Institute of Chartered Accountants (CICA), contributing to the initial development of ground breaking professional accounting and auditing standards for the public sector.

Mr. Streliaoff has consistently worked to strengthen public sector governance, management and accountability practices. He has served on many national organizations including as a member and governor of the CCAF (formerly the Canadian Comprehensive Auditing Foundation), as the inaugural chair of the Canadian Council of Legislative Auditors Planning and Coordinating Committee and as a member of the CICA's Public Sector Accounting Board.

Since retirement in 2006, he has served as the inaugural Chair of the Quality Worklife/Quality Healthcare Collaborative, a nationwide group of 12 Canadian health organizations dedicated to developing an evidence-informed framework and action strategy to ensure a healthier Canadian public health workplace and, thus, improving the quality of patient care; he has served as a member of the Health Council of Canada's Value for Money Steering Committee; and he has advised senior officials in the public and private sectors on various governance, management and accountability matters.

Mr. Streliaoff received B.A., B.Comm. and M.Sc. degrees from the University of Saskatchewan. He obtained his C.A. at Peat Marwick Mitchell (now KPMG).

In 1992, Mr. Streliaoff was awarded the Commemorative Medal for the 125th Anniversary of Confederation of Canada in recognition of his significant contributions to compatriots, the community and to Canada. In 2003, he was recognized by the Institute of Chartered Accountants of British Columbia for his contribution to the accounting profession, by naming him a Fellow and awarding him the FCA designation.

Andrew Fung – Morneau Shepell



Andrew Fung, FSA, FCIA, CFA joined Morneau Shepell on November 10, 2015 as a partner in its Ontario Retirement Solutions Practice.

Prior to joining Morneau Shepell, Mr. Fung was a Senior Vice President at one of the largest public sector pension plans in Ontario. He has extensive experience in the areas of board governance, stakeholder relations, policy and research, strategy and growth, service and product development, government relations and advocacy, and communications. He is well versed in areas such as pension funding policy and risk management, having practiced as a senior actuary in both an international actuarial firm and a major accounting firm.

Mr. Fung is Fellow of the Society of Actuaries, a Fellow of the Canadian Institute of Actuaries, and a Chartered Financial Analyst. He has a Bachelor of Mathematics degree (Dean's Honour List) from the University of Waterloo, and is currently enrolled in the Institute of Corporate Directors - Director Education Program.

Anne G.S. Soh - OMERS



Anne Soh is Vice President, Actuarial Services and Plan Actuary at the Ontario Municipal Employees Retirement System (OMERS). She serves as the actuarial advisor to both OMERS Boards of Directors in managing the funding of the OMERS Pension Plans and oversees the in-house actuarial department.

Anne is an actuary with over 20 years of experience in the pension and benefits industry. Prior to joining OMERS, she was a senior consulting actuary at both Mercer and at Watson Wyatt (now Willis Towers Watson), where she provided advice to her clients on funding strategies, plan design, administration and communication issues.

She also serves as the Chair of the Pension Plan Advisory Committee of the Pension Plan of the United Church of Canada and is a pension committee member for the Pension Plan for Employees of Canada's National Ballet School.

Anne is a Fellow of the Canadian Institute of Actuaries, a Fellow of the Society of Actuaries and holds a Honours BSc from the University of Western Ontario.

Philip Morse – Willis Towers Watson



Philip Morse is a Fellow of the Canadian Institute of Actuaries (CIA), the professional body governing the education, qualification, conduct and work of actuaries in Canada.

He was involved in the preparation of “Independent Review of the Actuarial Funding Report on the Ontario Retirement Pension Plan (ORPP) – June 30, 2016.”

Darlene Himick, Ph.D., MBA, CFA – University of Ottawa



Darlene Himick received a Ph.D. in Accounting from the University of Calgary and an MBA from Dalhousie University. Professor Himick also earned an LLB from Osgoode Hall Law School, York University and is a member of the Nova Scotia Bar. She was previously an Assistant Professor at the John Molson School of Business, Concordia University. Her teaching interests include financial accounting, managerial accounting, accounting theory, and financial statement analysis. A Charterholder with the CFA Institute, Ms. Himick served for several years as a pension investment consultant before she began her academic career. Among her many current roles, she is a Senior Research Fellow with the Shareholder Association for Research and Education, based in Vancouver, B.C.

Professor Himick has presented her research at numerous academic conferences and has been an invited speaker at several industry forums. Her studies have been published in peer-reviewed journals such as Auditing and Accountability Journal and Critical Perspectives on Accounting. Her research focuses on pension accounting, responsible investing by pension funds, and the use of experts during standard setting. She is also interested in accounting history and the accounting profession, specifically its interaction with the actuarial profession. Ms. Himick has received funding from the Fonds québécois de la recherche sur la société et la culture (FQRSC) to study the use of accounting information in the context of retirement plans in Canada and the United States.

Christine Wiedman, Ph.D., FCPA – University of Waterloo



- Christine is interested in financial reporting and governance issues, including the determinants of firms' financial reporting and disclosure choices, the role of regulation on corporate fraud, and the interpretation of accounting information by capital market participants. Current projects examine: voluntary disclosure of political spending; whistleblower provisions of the Dodd-Frank Reform Act of 2010; gender diversity on corporate boards; changes in reporting and disclosure quality for restatement firms; and the role of gender in the reward of research collaboration.
- Christine has authored papers on pension related topics

From: MacIntyre, Kyle (TBS) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: FW: PAEAP Report: Draft Products
Date: Friday, February 03, 2017 13:34:33
Attachment 1: PAEAP Report NR_v6_20170203.doc
Attachment 2: PAEAP Report QA_v9_20170203.docx
Attachment 3: PAEAP Report Release_Statement_v8_20170203.doc

FYI – early draft.

From: Ovenden, Erin (TBS)
Sent: February-03-17 12:18 PM
To: Tedesco, Lauren (TBS); Ostergard, Matt (TBS)
Cc: Nelson, Dane (TBS); MacIntyre, Kyle (TBS); Sullivan, Bryant (TBS); Jackson, Sarah (TBS); Miller, Amanda (TBS)
Subject: PAEAP Report: Draft Products

Hi-

Please find attached the draft PAEAP Report products:

- News Release
- Minister's Statement
- Media Qs

These products are still pending approval from Karen Hughes and the DMO.

Let me know if you have any questions or comments. Thanks,

Erin Ovenden

Senior Communications Consultant

Communications Branch | Treasury Board Secretariat

77 Wellesley Street West, Ferguson Block

Toronto, ON M7A 1N3

Tel: 416-326-7727

Pension Asset Expert Advisory Panel Finds Ontario's Accounting Methods Accurate

Province's 2015-16 Deficit Lowered from \$5B to \$3.5B

NEWS

February 13, 2017 (TBC)

An independent expert panel has released its advice and recommendations on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. In its report, the panel supports the accounting treatment that Ontario adopted in 2001.

By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.

Ontario accepts the panel's recommendations, which will inform the preparation of the Province's future financial statements.

The Province remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow the economy and help people in their everyday lives.

QUOTES

"I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We are pleased that the Panel's advice aligns with Ontario's view that net pension assets should continue to be recognized in Ontario's financial reports, as they have been for the past 14 years."

— Liz Sandals, President of the Treasury Board

"With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have clarity on how to account for jointly-sponsored pension assets. This advice will help us continue to present the province's finances fairly and accurately, as we work toward balancing the budget in 2017-18."

— Charles Sousa, Minister of Finance (TBC MOF)

QUICK FACTS

- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly-sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).
- On November 10, 2016, the government formed the Pension Asset Expert Advisory Panel to deliver advice and recommendations on how public sector accounting standards are

interpreted as they apply to net pension assets. The panel members have expertise in the areas of jointly-sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

- The panel's report concluded that the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements. Applying the accounting standards shows no valuation allowance is required to reduce the amount of either asset.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report: *[insert hyperlink]*

[Pension Asset Expert Advisory Panel Members](#)

[Pension Asset Expert Advisory Panel Terms of Reference](#)

[Read the 2015-16 Public Accounts of Ontario](#)

[Learn about the government's fiscal cycle](#)

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

news.ontario.ca
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Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 1, 2017

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.
- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.
- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.
- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.
- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

QUESTIONS & ANSWERS:

1. In layman's terms what does the report mean?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly-sponsored plans should be recognized in Ontario's financial statements.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for two jointly-sponsored pension plans - the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve the concerns, the Province's professional accounting staff and the Auditor General had differences of opinion.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

Ontario is committed to acting on all of the panel's recommendations. We will prepare future financial statements based on the panel's advice.

The government remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Questions and Answers
Pension Asset Expert Advisory Panel Report

2. What is the Province's new deficit figure for 2015-16? In the 2015-16 Public Accounts you said it was \$5 billion based on the Auditor General's math.

By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.

3. Are you saying the Auditor General is wrong?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

4. The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's recommendations help clarify how public sector accounting standards are interpreted as they apply to jointly-sponsored pension assets and we thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

We have also shared the panel's advice with the Auditor General and we look forward to further discussions in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

5. Have you spoken to the Auditor General about the panel's findings?

The panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also shared a copy with the Auditor General's office and met with her to review their findings. Also, the ministry spoke with the Auditor General to discuss the panel's findings.

6. What will the government do if the Auditor General does not accept the panel's recommendations?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the

Questions and Answers
Pension Asset Expert Advisory Panel Report

financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's advice will help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will provide input through the process set out by the board.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice.

We are committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

7. The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that?

That is simply not true. For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General.

If pressed about Ontario's plans compared to other jurisdictions:

Pension accounting is a complex issue. Extensive research and analysis has been done internally comparing Ontario's plans to other jurisdictions. It should be pointed out that the pension plans for New Brunswick and British Columbia are different than Ontario's; therefore the accounting treatment is different.

Questions and Answers
Pension Asset Expert Advisory Panel Report

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans in Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality reporting.

8. The government picked the panel members and paid for their services. Some would say you simply bought the advice you wanted, when you didn't like what the Auditor General had to say. How do you respond?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

The panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards:

- Tricia O'Malley is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board (AcSB), and was a member of the International Accounting Standards Board (IASB) from 2001.
- Murray Gold is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
- Uros Karadzic is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting, and
- Paul Martin is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

Per the terms of reference, the panel was also supported by a small group of civil servants which provided information related to the pension plans sponsored by the Province of Ontario.

9. The Auditor General says she has a number of accounting opinions supporting her position. How do you respond to that?

We don't know who provided those opinions, what questions they were asked or what information they based their assessments on, so I can't comment on it. In forming an opinion however; we can't overstate how important it is to consider all relevant facts. In that regard, we are pleased that the panel's report is being made public so that others will also have access to the same set of facts for further consideration.

Questions and Answers
Pension Asset Expert Advisory Panel Report

The government has been fully transparent about the Pension Asset Expert Advisory Panel and how it arrived at its conclusions.

10. Was there something wrong with the accounting rules the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It had also been accepted by three previous Auditors General.

Ontario's strong track record of producing high-quality financial reports is also evidenced by the fact that the Province had clean audit opinions for 22 years before 2015-16.

We understand that the Auditor General's interest in the Province's accounting for net pension assets arose last summer as part of her review of pension related assumptions and the significant impact that the net asset position of the plans on the Province's fiscal results.

11. How did the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards, which would have impacted the Province's accounting for net pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, according to the Auditor General, where there was no agreement in place to the contrary, the Auditor General believed that the net pension asset should be removed from the Province's balance sheet.

Since the difference of opinion could not be resolved, the government passed a regulation to allow us to report the net pension assets for jointly-sponsored pension plans consistent with the Auditor's interpretation of the accounting standards.

12. The Auditor General has said the government needs to have unilateral control in order to recognize a pension asset for a jointly-defined benefit plan. What did the panel recommend?

This was one of the issues on which the panel was asked to provide advice and recommendations to the government.

The panel's report aligns with the Province's position that unilateral control for jointly-defined benefit plans is not required in order for the net pension assets to be recognized in the Province's financial statements.

13. If the jointly-sponsored plans are in surplus, is there a plan to reduce member contributions?

Reducing member contributions is something that would require discussion and agreement between both plan sponsors.

Questions and Answers
Pension Asset Expert Advisory Panel Report

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

14. Will you continue to accept qualified opinions in the future?

We will continue to move forward and present the Province's finances fairly and accurately. We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her.

However, we would like to remind you that the audit opinion for 2015-16 was not qualified but rather the Auditor General qualified her opinion for the 2014-15 comparative results which did not reflect the regulated accounting.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

15. Is the government going to restate the 2015-16 Public Accounts?

The 2015-16 Public Accounts were issued and reflected the regulated accounting treatment which was applicable to that year only.

We plan to formally restate these amounts in the 2016-17 Public Accounts, so that the net pension assets are presented on a consistent basis.

16. What does this mean for the upcoming Budget?

Commented [EKO1]: Reminder: Reconfirm with MOF

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. We will have more details to share about the Budget in the coming weeks.

17. It sounds like the government is fighting with the Auditor General again. What do you say to this?

This is not true from the government's perspective. In fact, we look forward to resolving our difference of opinion between the Province's professional accounting staff and the Auditor General's Office.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If asked to explain the history of this issue:

Questions and Answers
Pension Asset Expert Advisory Panel Report

In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly sponsored pension plans.

From the government's perspective, the accounting treatment for jointly sponsored pension plans that was initially adopted in 2001 was and is still appropriate. Given the difference of opinion at the time, the Province filed a time-limited regulation, which legislated the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts only. This was consistent with the fiscal outcome proposed by the Auditor General.

Since the release of the Public Accounts, the government established a Pension Asset Expert Advisory Panel to provide independent advice on the interpretation of the accounting standards to Ontario's defined benefit pension plans. This panel has now provided its report on jointly-sponsored pension plans to the government and it has been shared with the Auditor General and the public.

The government will continue to present the Province's finances fairly and accurately.

18. What do you say to the credit rating agencies who are watching all of this unfold?

Commented [EKO2]: Reminder: Reconfirm with MOF

We have been impressed with the level of cooperation and understanding of the credit rating agency community.

I would say we have achieved clarity on this complex accounting issue.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

19. How will skyrocketing executive pay in the college sector affect the government's path to balance?

Ontario has implemented a framework for broader public sector executive compensation, including capping salary and performance-related payments.

The Executive Compensation Framework regulation came into force on September 6, 2016 and applies to all designated employers under the Broader Public Sector Executive Compensation Act, 2014 (BPSECA).

The Executive Compensation Framework is designed to ensure transparency and accountability in how broader public sector employers set executive compensation. Under the framework, designated employers must seek public comment as part of developing their executive compensation program.

The Executive Compensation Framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of

Questions and Answers
Pension Asset Expert Advisory Panel Report

appropriate comparators and prohibits signing bonuses, retention bonuses, cash housing allowances and pay in lieu of perquisites.

These requirements will ensure that broader public sector organizations are accountable for compensation decisions and are able to attract and retain the necessary talent to deliver high quality public services while managing public dollars responsibly.

20. How long have you had the report?

The panel submitted its report in late January. We've used this time to analyze the recommendations, and prepare it for public release.

21. When you announced the panel in October 2016, you said the report was due to the President of the Treasury Board and the Auditor General of Ontario by the end of 2016. What happened?

When the panel was announced in October 2016, we had not yet identified the members. Once the panel was established, it was determined by the members that they would need additional time to conduct a thorough review of the issues at hand.

22. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

23. Would you still have accepted the panel's recommendations if they weren't favourable to you?

I'm not going to speculate on something that didn't happen.

What I will say is that the panel took every effort to ensure that it had a complete understanding of the facts and studied this complex issue extensively. We are pleased that the panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans and should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.

24. Your government keeps establishing panels to resolve your issues. Why can't you just make a decision?

Pension accounting is a complex issue. We need the best advice in order to make well-informed decisions. Sometimes this means seeking independent expertise.

The Pension Asset Expert Advisory Panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans.

Questions and Answers
Pension Asset Expert Advisory Panel Report

BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

25. What is a jointly-sponsored pension plan?

A joint defined benefit plan is a contractual arrangement between the government and another sponsor or sponsors representing plan participants

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The sponsors have shared control over the retirement benefit plan, and ensure that neither party is in a position to control the plan unilaterally. The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

26. What did the Pension Asset Expert Advisory Panel do?

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards (PSAS) to Ontario's net pension assets for two joint defined benefit pension plans – Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan.

The panel agrees that the net pension asset for each plan should be recognized as part of the Province's financial position.

Recognizing the asset will provide a faithful representation of Ontario's financial position.

27. How did the panel reach its conclusions?

The panel received and reviewed background information, including the governing documents of the plans and related agreements. It also received analyses from both the government and the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with both the government's professional accounting staff and the Auditor General and her Public Accounts staff responsible for the pension issue to ensure the panel fully understood their thinking. The panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members.

28. Who was on the panel?

The membership of the Pension Asset Expert Advisory Panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

Questions and Answers
Pension Asset Expert Advisory Panel Report

The panel included:

- Tricia O'Malley (Chair)
- Murray Gold
- Uros Karadzic and
- Paul Martin.

29. How much will they be paid? What was the total cost spent on this report?

The Chair will be compensated at \$2,000 per diem and \$1,900 per diem for the other members.

Panel members will also be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

The total amount the panel will be paid will be determined once their work is complete. According to the panel terms of reference, this is scheduled to end on March 31, 2017.

IF ASKED ABOUT PAUL MARTIN:

As a member of the public service of the Province of New Brunswick, Mr. Martin did not receive compensation. He was only eligible for expense reimbursements.

Ontario's Financial Position:

Commented [EK03]: Reminder: Reconfirm with MOF

30. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

The government is projecting a balanced the budget by 2017-18, and remaining balanced in 2018-19.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- Managing compensation costs
- Maintaining tax fairness and a level playing field for business
- Strengthening government transparency, financial management and fiscal accountability

Questions and Answers
Pension Asset Expert Advisory Panel Report

31. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

32. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Legislated Accounting:

33. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

Questions and Answers
Pension Asset Expert Advisory Panel Report

In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

Pension Asset Expert Advisory Panel Report Press Conference

**Statement by
The Honourable Liz Sandals**

February 13, 2017

Time TBC

Location TBC

Toronto, Ontario

Estimated Length: 2 minutes (XXX words)

- Today, the Pension Asset Expert Advisory Panel released its report to the government.
- This independent panel was formed to deliver advice and recommendations on a complex accounting issue.
- The issue was the interpretation of accounting standards to Ontario's jointly sponsored pension plans.
- The panel members have expertise in the areas of public sector accounting standards, actuarial modelling, and legal frameworks of pension plans.
- I would like to thank the panel for their thorough analysis and recommendations on this important issue.
- We are pleased that the panel's results support Ontario's view that the net pension assets for Ontario's jointly sponsored plans should continue to be recognized in the province's financial statements, as they have been for the past 14 years.

- Ontario is accepting the panel's findings, which help to confirm the Province's accounting policy for pensions in the Province's financial reports.
- Consistent with the Panel's recommendations, the Province will record an asset in its financial statements for its share of a surplus reported in the accounting valuations of its two jointly sponsored pension plans:
 - o the Ontario Teachers' Pension Plan, and
 - o the Ontario Public Sector Employees' Union Pension Plan.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.

- Transparency and accountability in financial reporting, and responsible fiscal management are a key priorities for this government.
- We remain firmly committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19, while continuing to invest in the priorities that matter to Ontarians.
- We will continue to present the province's finances fairly and accurately as we work to improve the lives of all Ontarians.
- I will now turn it over to my colleague, Minister Sousa, who will deliver a brief statement. Following that we would be happy to take your questions.



From: Thompson, Scott (MOF) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: FW: Pension Asset Expert Advisory Panel
Date: Thursday, December 01, 2016 18:22:31

From: Bonnie Lysyk
Sent: Thursday, December 01, 2016 5:22:29 PM (UTC-05:00) Eastern Time (US & Canada)
To: Angus, Helen (TBS)
Cc: Thompson, Scott (MOF)
Subject: RE: Pension Asset Expert Advisory Panel

Hi Helen & Scott,

I'm just catching up on my emails as a result of the lead up work to our Annual Report Tabling yesterday. The letters you are referring to would be considered confidential and part of our working paper files under our Act, so I would ask that they not be provided to the Panel. However, I have a meeting being arranged with the panel and will provide them with a document that will incorporate the relevant information.

If you have any questions, or would like to discuss this further, please give me a call.

Sincerely,

Bonnie

From: Sagun, Allyna (TBS) [mailto:Allyna.Sagun@ontario.ca] **On Behalf Of** Angus, Helen (TBS)
Sent: Wednesday, November 23, 2016 2:09 PM
To: Bonnie Lysyk
Cc: Thompson, Scott (MOF)
Subject: Pension Asset Expert Advisory Panel

Ms. Bonnie Lysyk

Auditor General of Ontario

Office of the Auditor General of Ontario

20 Dundas Street West, Suite 1530

Toronto, Ontario M5G 2C2

November 23, 2016

Dear Ms. Lysyk,

As announced on November 10, 2016, in connection with the release of the 2015-16 Public Accounts, the government has formed an expert advisory panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets.

Panel members will provide advice on both the criteria required to be met to recognize a net pension asset and as well as how such assets should be valued. The report back from the panel is expected by the end of the calendar year.

To support the work of the panel, we would like to share documentation reflecting your view on the issue. Please confirm that we can share your letters to us dated September 13, 2016 and September 26, 2016 to ensure the panel has a fulsome understanding of your view.

Thank you for your assistance,

Original signed by

Scott Thompson

Deputy Minister

Ministry of Finance
Management Board of Cabinet

Original signed by

Helen Angus

Deputy Minister, Treasury Board

Secretary of Treasury Board and

-- This email (including attachments) may contain confidential, personal, legally-privileged, copyrighted information, or information exempt from disclosure under The Auditor General Act, R.S.O. 1990, c. A.35. Contact me immediately if you are not the intended recipient and delete this email from your system and do not use, distribute (forward), copy, or disclose its contents.

From: McLean, David (MOF) []
To: Thompson, Scott (MOF) [Scott.Thompson@ontario.ca]
Subject: FW: Press Conference Summary: Pension Asset Expert Advisory Panel Final Report
Date: Monday, February 13, 2017 12:01:19

FYI – good recap of today's press conference.

From: Spadoni, Peter (MOF)
Sent: Monday, February 13, 2017 10:43 AM
To: Jackson, Kelly (MOF); Ingram, Kelsey (MOF); Moore, Brynne (MOF)
Cc: Blodgett, Scott (MOF); Lone, Dianne (MOF); Morier, Rebecca (MOF); Patel, Lesley (MOF); Quarcoo, Irene (MOF); Maloney, Martha (MOF); Ize-Dukuze, Marilyn (MOF); Hipolito, Judith (MOF); Milana, Natale (MOF); Pichette, Marc (MOF)
Subject: Press Conference Summary: Pension Asset Expert Advisory Panel Final Report
Importance: High

Hi there,

Please see below a summary of the press conference from the Pension Asset Expert Advisory Panel.

Media in attendance:

- CBC
- Toronto Star
- CP
- Queen's Park Today
- others

-

Summary:

- MOF media spokesperson, Scott Blodgett, moderates
- Tricia O'Malley, Chair of Panel, and panel member Uros Karadzic deliver presentation
- Panel's goal is not to speculate on government's plans, but to present their findings
- Description of panel members, their backgrounds, and their roles
- Description of material that panel reviewed
- Description of the pension plans in question: Ontario Teacher's Pension Plan (OTPP) and the Ontario Public Services Employees Union Pension Plan (OPSEUPP)
- Panel's report concludes that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized as an asset in Ontario's financial statements, which Ontario has done consistently since 2001 and should be reported for

-

Questions from media:

Q. The AG's concern is because the pension surplus number was rising rapidly. Did you calculate what the surplus is worth?

A. We didn't do this; we're all working with the same number. We're talking about the accounting surplus, which is different from the public accounts number. Already agreed upon protocol in counting these numbers.

Q. So therefore, the AG was incorrect?

A. Our advice to the province is that these should be considered an asset.

Q. Believe AG mentioned in her annual report that BC and NB have a different accounting scheme. Why does Ontario calculate these pensions as assets?

A. We did look at this, and it's in our report. All these plans are very unique and specific, and it's important to understand how they work. These pension plans are much different than the BC and NB ones.

Q. How do you resolve this dispute if the AG still disagrees with you?

A. Panel members are members of the public sector advisory board. They have a discussion paper out right now. We will provide some recommendations to this board...

Q. But the AG disagrees with you, and you are taking the government's side. What should the government do?

A. Difficult to say, there are two different opinions here. We found the answers to some unclear information; but we had to go outside the standards themselves to figure this out.

Q. The AG also said she did her homework. Did you do your homework?

A. Yes. Look, this is something that's not as common in North America as it is outside of it. Sometimes you have to learn to live with two answers.

Q. (Question inaudible)

A. Comfortable with the way we approached this.

Q. Benefit cost with the surplus. Does the AG not agree with this, that's there's a benefit cost?

A. (Response inaudible)

Q. Aren't any numbers in this report. If the government accepts your interpretation, does the calculation...is the government's math right? Let's talk deficit rather than debt.

A. We haven't re-performed the valuation. Question was really what can be recognized and what cannot.

Q. So the way the government arrived at this calculation is the same as what you're recommending?

A. We're not aligned with government or AG...because we arrived there in a slightly different way. We find, though, that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized as an asset in Ontario's financial statements. We applied the right standards to coming to this conclusion.

Q. Political point – whether the government can really balance the budget. There's a perception that this fudging numbers against the bottom line.

A. I don't think the accounting valuation showed a difference in valuations.

Q. I gather you have briefed the AG on this report. What was her reaction? Her office has said they won't have an announcement on reaction. Do you think she will accept these findings?

A. We didn't really discuss this. This was more of a briefing, and a chance to respond to questions (they had the report before we met). They thanked us for coming.

Q. They didn't say, "your logic is wrong"?

A. Only comment we heard was they were surprised by some of our references to international accounting standards.

Q. Ontario has 2 jointly-sponsored pension plans. Would you say that this is a mistake?

A. This is a policy question. There were other pension plans that we're looking at, but not today. Perception is that way to make benefits plan sustainable is to make them jointly-sponsored.

Note that questions are not verbatim – we will send the full press conference transcript once we receive it later today.

Thanks,

Peter

Peter Spadoni

Manager (A)

Issues, Media, Correspondence & Research Services

Communications Services Branch

Ministry of Finance

Office: 416-325-0463 BB: 416-728-9792

From: McLean, David (MOF) []
To: Mayman, Gadi (OFA) [Gadi.Mayman@ofina.on.ca]
CC: Strathy, Anna (OFA) [Anna.Strathy@ofina.on.ca]
Subject: FW: tech briefing
Date: Thursday, September 07, 2017 10:31:51
Attachment 1: Public Accounts Technical Briefing 201617_Final.pptx
Attachment 2: Pension Panel Slides _2016-17 PA Tech Briefing_Final.pptx

FYI

From: MacIntyre, Kyle (TBS)
Sent: September 7, 2017 9:06 AM
To: Kwamena, Boafoa (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF)
Subject: RE: tech briefing

Here's the tech deck and a summary of the former Panel's report (which will be delivered by Uros Karadzic).

Tech deck:

- Pls use: Confederation17
- Helen/Scott open up with context
- Cindy to speak to:
 - o Preparation of the financial statements and key changes to these public accounts (including those we agree with the AG on)
 - o IESO related changes (qualified on)
 - o Pension asset related accounting (qualified on)
- Turn over to Uros to summarise former panel report

Our MO is reviewing, will share any edits. IESO has looked at their slides. Focus is supposed to be largely on the Pensions, hence the prominence in the deck.

Tech briefing:

- In the Nipigon room.
- Starts at 1:00
- Media Avail w two ministers: starts at 1:45, is the current tracking

Media kits are being prepared.

K.

From: Kwamena, Boafoa (CAB)
Sent: September-07-17 8:42 AM
To: MacIntyre, Kyle (TBS)
Cc: Bromm, William (CAB)
Subject: tech briefing

Hi

Are there materials you can share? Thanks

Boafoa Kwamena

Special Advisor

Office of the Secretary of the Cabinet

Cabinet Office

416-325-4400

Boafoa.kwamena2@ontario.ca

Attachment Public Accounts Technical Briefing 201617_Final.pptx (370688 Bytes) cannot be converted to PDF format.

Summary of Pension Asset Expert Advisory Panel

Technical Briefing
September 7, 2017

Pension Asset Expert Advisory Panel -- Process

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team to fully understand the basis for the OAG's accounting conclusions.
- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered:
 - guidance in PSAS specifically on Retirement Benefits
 - other relevant guidance in PSAS, and that issued by other standard setters identified in PSAS as sources to consult, in areas where the retirement benefits standard is not clear

Panel's Position on Recognition of Asset

- Net pension asset meets the definition of an economic resource because:
 - accounting surplus exists, and
 - future economic benefit is available to government as contribution reductions, freeing cash for other purposes.
- Unilateral control not necessary for asset recognition:
 - in fact, cannot exist in JDBPs or any other jointly controlled arrangement
 - sponsors jointly control the total net pension asset and must agree on how it will be used
 - key notion with joint control is that each sponsor can deny the other sponsor(s) access to the asset, ensuring no one side can make unilateral decisions
 - each sponsor should then recognize an asset relating to its portion of that jointly controlled surplus.

Panel's Position on Measurement of Asset

- Retirement benefits standard states that a sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions
- Contribution reductions are not the same as surplus withdrawal:
 - legal requirements for surplus withdrawal and contribution reductions are very different
 - joint sponsors free to decide on level of contributions in compliance with terms of Plan and Pension Benefits Act
 - no third-party approvals needed for contribution reductions
- No requirement for any agreement to be in place specifying exactly when and by how much contributions will be reduced
 - agreements in place already sufficient
 - standard says benefits need only be reasonably expected
- No onerous funding requirements exist for OTPP or OPSEUPP

Overall Conclusions of Panel

Recognition and measurement of the asset

- Net pension asset, without any valuation allowance, should be recognized in the Province's financial statements.
- Recognizing the asset will provide a faithful representation of the Province's financial position.
- Recognizing the asset will properly reflect the intention of the "deal" between the sponsors.

Overall

- Reasonable expectation that Sponsors will be able to benefit from lower contribution levels in future
- Established mechanisms exists to put these expectations into practice (in Plan documents and legislation)
- Surplus assets have real economic value government can benefit from so should be recognized

Appendix: Panel members

- Patricia O'Malley (Chair) – former Chair of Canadian Accounting Standards Board, former member of International Accounting Standards Board, Chair of the Canadian Actuarial Standards Oversight Council, former technical partner KPMG
- Murray Gold – Leading practitioner and senior pension and benefits partner at Koskie Minsky LLP
- Uros Karadzic – Pension actuary, member of the PSAB's Employment Benefit Taskforce, partner at EY
- Paul Martin – Comptroller with the Government of New Brunswick, member of the PSAB's Employment Benefit Taskforce and previously a partner with the national accounting firm of Grant Thornton LLP

From: McLean, David (MOF) []
To: Young, Gwendolynne (MOF) [Gwendolynne.Young@ontario.ca]
Subject: Fw: PAEAP Report: Draft Products
Date: Friday, February 03, 2017 13:52:10
Attachment 1: PAEAP Report NR_v6_20170203.doc
Attachment 2: PAEAP Report QA_v9_20170203.docx
Attachment 3: PAEAP Report Release_Statement_v8_20170203.doc

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>

Sent: Friday, February 3, 2017 12:34 PM

To: McLean, David (MOF)

Subject: FW: PAEAP Report: Draft Products

FYI – early draft.

From: Ovenden, Erin (TBS)

Sent: February-03-17 12:18 PM

To: Tedesco, Lauren (TBS); Ostergard, Matt (TBS)

Cc: Nelson, Dane (TBS); MacIntyre, Kyle (TBS); Sullivan, Bryant (TBS); Jackson, Sarah (TBS); Miller, Amanda (TBS)

Subject: PAEAP Report: Draft Products

Hi-

Please find attached the draft PAEAP Report products:

- News Release
- Minister's Statement
- Media Qs

These products are still pending approval from Karen Hughes and the DMO.

Let me know if you have any questions or comments. Thanks,

Erin Ovenden

Senior Communications Consultant

Communications Branch | Treasury Board Secretariat

77 Wellesley Street West, Ferguson Block

Toronto, ON M7A 1N3

Tel: 416-326-7727

Pension Asset Expert Advisory Panel Finds Ontario's Accounting Methods Accurate

Province's 2015-16 Deficit Lowered from \$5B to \$3.5B

NEWS

February 13, 2017 (TBC)

An independent expert panel has released its advice and recommendations on the application of public sector accounting standards to Ontario's jointly sponsored pension plans. In its report, the panel supports the accounting treatment that Ontario adopted in 2001.

By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.

Ontario accepts the panel's recommendations, which will inform the preparation of the Province's future financial statements.

The Province remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow the economy and help people in their everyday lives.

QUOTES

"I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We are pleased that the Panel's advice aligns with Ontario's view that net pension assets should continue to be recognized in Ontario's financial reports, as they have been for the past 14 years."

— Liz Sandals, President of the Treasury Board

"With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have clarity on how to account for jointly-sponsored pension assets. This advice will help us continue to present the province's finances fairly and accurately, as we work toward balancing the budget in 2017-18."

— Charles Sousa, Minister of Finance (TBC MOF)

QUICK FACTS

- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly-sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).
- On November 10, 2016, the government formed the Pension Asset Expert Advisory Panel to deliver advice and recommendations on how public sector accounting standards are

interpreted as they apply to net pension assets. The panel members have expertise in the areas of jointly-sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

- The panel's report concluded that the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements. Applying the accounting standards shows no valuation allowance is required to reduce the amount of either asset.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report: *[insert hyperlink]*

[Pension Asset Expert Advisory Panel Members](#)

[Pension Asset Expert Advisory Panel Terms of Reference](#)

[Read the 2015-16 Public Accounts of Ontario](#)

[Learn about the government's fiscal cycle](#)

Matt Ostergard, Minister's Office, 416-326-3839
Jason Wesley, Communications Branch, 416-327-4023

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Questions and Answers
Pension Asset Expert Advisory Panel Report

Confidential DRAFT

February 1, 2017

KEY MESSAGES:

- We thank the Pension Asset Expert Advisory Panel for their work on this complex issue.
- We are pleased that the independent panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.
- Ontario is accepting all of the panel's recommendations and will prepare its future financial statements based on this advice.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.
- The panel's advice will also help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.
- Ontario remains committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

QUESTIONS & ANSWERS:

1. In layman's terms what does the report mean?

The panel's results are consistent with the government's view that the net pension assets for the Province's two jointly-sponsored plans should be recognized in Ontario's financial statements.

During the 2015-16 Public Accounts audit, the Auditor General raised some questions about Ontario's past accounting practices related to pension assets for two jointly-sponsored pension plans - the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

Pension accounting requires the application of professional judgment. Despite best efforts to try to resolve the concerns, the Province's professional accounting staff and the Auditor General had differences of opinion.

We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

Ontario is committed to acting on all of the panel's recommendations. We will prepare future financial statements based on the panel's advice.

The government remains committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19.

Questions and Answers
Pension Asset Expert Advisory Panel Report

2. What is the Province's new deficit figure for 2015-16? In the 2015-16 Public Accounts you said it was \$5 billion based on the Auditor General's math.

By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.

3. Are you saying the Auditor General is wrong?

Pension accounting is a complex issue that requires the application of professional judgment. With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to the Province's jointly-sponsored pension plans.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

4. The panel doesn't have the authority to overrule the Auditor General, so what was the point of establishing it?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's recommendations help clarify how public sector accounting standards are interpreted as they apply to jointly-sponsored pension assets and we thank them for their work on this complex issue. Ontario is committed to acting on all of the panel's recommendations.

We have also shared the panel's advice with the Auditor General and we look forward to further discussions in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

5. Have you spoken to the Auditor General about the panel's findings?

The panel sought input from the Auditor General as part of their research and deliberations. Prior to the release of the panel's report, they also shared a copy with the Auditor General's office and met with her to review their findings. Also, the ministry spoke with the Auditor General to discuss the panel's findings.

6. What will the government do if the Auditor General does not accept the panel's recommendations?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the

Questions and Answers
Pension Asset Expert Advisory Panel Report

financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel's advice will help inform discussions with the Auditor General in the hopes of reaching agreement on how the accounting standard is applied to future financial statements.

The government respects the oversight and recommendations provided by all independent officers of the Legislative Assembly of Ontario, including the Auditor General. Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years. We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

The treatment of pension assets is a complex accounting issue. In fact, the Public Sector Accounting Board has initiated a project to review pension accounting standards. The Public Sector Accounting Board will be seeking input from governments, auditors and other stakeholders to ensure that accounting standards support transparency and accountability and meet user needs. Ontario will provide input through the process set out by the board.

If pressed:

We can't speculate on what the Auditor General will do. Our intention is to prepare future financial statements based on the panel's advice.

We are committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

7. The Auditor General claimed you used creative accounting to overstate your numbers – how do you respond to that?

That is simply not true. For the 2015-16 Public Accounts, the government passed a time-limited regulation to allow us to amend our accounting policies in order to be consistent with the Auditor General's assessment of our treatment of pension assets. This reflects the fiscal outcome proposed by the Auditor General. The use of a time-limited regulation enabled the professional staff to take responsibility for the financial statements, while dealing with a very complex issue that warranted additional time to resolve.

Prior to implementing this change, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years – resulting in unqualified (clean) audit opinions. It had also been accepted by three previous Auditors General.

If pressed about Ontario's plans compared to other jurisdictions:

Pension accounting is a complex issue. Extensive research and analysis has been done internally comparing Ontario's plans to other jurisdictions. It should be pointed out that the pension plans for New Brunswick and British Columbia are different than Ontario's; therefore the accounting treatment is different.

Questions and Answers
Pension Asset Expert Advisory Panel Report

With the help of the unique professional skillsets and perspectives of the members of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans in Ontario.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality reporting.

8. The government picked the panel members and paid for their services. Some would say you simply bought the advice you wanted, when you didn't like what the Auditor General had to say. How do you respond?

At the end of the day these are the Province's financial statements. In the Auditor General's 2016 Annual Report, she acknowledged that as the preparers of the financial statements, the Province is ultimately responsible for deciding how to apply the accounting standards.

The panel was completely independent from government. It arrived at its advice based on its own analysis of this complex issue.

The panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards:

- Tricia O'Malley is a Chartered Professional Accountant. She has been a member of the Canadian Accounting Standards Oversight Council since 2013, was Chair of the Canadian Accounting Standards Board (AcSB), and was a member of the International Accounting Standards Board (IASB) from 2001.
- Murray Gold is a leading legal practitioner and senior pension and benefits partner at Koskie Minsky LLP,
- Uros Karadzic is a senior actuary at Ernst and Young's People Advisory Services Reward practice, which includes pension, benefit and compensation consulting, and
- Paul Martin is a Chartered Professional Accountant, Comptroller with the Government of New Brunswick and previously a partner with the national accounting firm of Grant Thornton LLP.

Per the terms of reference, the panel was also supported by a small group of civil servants which provided information related to the pension plans sponsored by the Province of Ontario.

9. The Auditor General says she has a number of accounting opinions supporting her position. How do you respond to that?

We don't know who provided those opinions, what questions they were asked or what information they based their assessments on, so I can't comment on it. In forming an opinion however; we can't overstate how important it is to consider all relevant facts. In that regard, we are pleased that the panel's report is being made public so that others will also have access to the same set of facts for further consideration.

Questions and Answers
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The government has been fully transparent about the Pension Asset Expert Advisory Panel and how it arrived at its conclusions.

10. Was there something wrong with the accounting rules the government was using before?

No. Prior to this change, Ontario had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years. It had also been accepted by three previous Auditors General.

Ontario's strong track record of producing high-quality financial reports is also evidenced by the fact that the Province had clean audit opinions for 22 years before 2015-16.

We understand that the Auditor General's interest in the Province's accounting for net pension assets arose last summer as part of her review of pension related assumptions and the significant impact that the net asset position of the plans on the Province's fiscal results.

11. How did the Auditor General want you to account for jointly-sponsored pension plans?

During the 2015-16 Public Accounts audit, the Auditor General expressed a different interpretation of the existing PSAB standards, which would have impacted the Province's accounting for net pension assets of jointly-sponsored pension plans.

The Auditor General's view is that the government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, according to the Auditor General, where there was no agreement in place to the contrary, the Auditor General believed that the net pension asset should be removed from the Province's balance sheet.

Since the difference of opinion could not be resolved, the government passed a regulation to allow us to report the net pension assets for jointly-sponsored pension plans consistent with the Auditor's interpretation of the accounting standards.

12. The Auditor General has said the government needs to have unilateral control in order to recognize a pension asset for a jointly-defined benefit plan. What did the panel recommend?

This was one of the issues on which the panel was asked to provide advice and recommendations to the government.

The panel's report aligns with the Province's position that unilateral control for jointly-defined benefit plans is not required in order for the net pension assets to be recognized in the Province's financial statements.

13. If the jointly-sponsored plans are in surplus, is there a plan to reduce member contributions?

Reducing member contributions is something that would require discussion and agreement between both plan sponsors.

Questions and Answers
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We are pleased that the independent panel agrees with Ontario's view that net pension assets for jointly-sponsored pension plans should continue to be recognized in the Province's financial statements as they have been for the past 14 years.

14. Will you continue to accept qualified opinions in the future?

We will continue to move forward and present the Province's finances fairly and accurately. We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19.

I cannot speculate on how the Auditor General will characterize her future audit work. That decision is up to her.

However, we would like to remind you that the audit opinion for 2015-16 was not qualified but rather the Auditor General qualified her opinion for the 2014-15 comparative results which did not reflect the regulated accounting.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In fact, prior to 2015-16, Ontario had clean audit opinions for 22 years.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management.

15. Is the government going to restate the 2015-16 Public Accounts?

The 2015-16 Public Accounts were issued and reflected the regulated accounting treatment which was applicable to that year only.

We plan to formally restate these amounts in the 2016-17 Public Accounts, so that the net pension assets are presented on a consistent basis.

16. What does this mean for the upcoming Budget?

Commented [EKO1]: Reminder: Reconfirm with MOF

The 2017 Budget will reflect the appropriate accounting treatment for net pension assets informed by the panel's report, including the Province's updated Interim numbers for 2016-17, as well as forecasts for the fiscal planning period.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. We will have more details to share about the Budget in the coming weeks.

17. It sounds like the government is fighting with the Auditor General again. What do you say to this?

This is not true from the government's perspective. In fact, we look forward to resolving our difference of opinion between the Province's professional accounting staff and the Auditor General's Office.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

If asked to explain the history of this issue:

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In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board (PSAB) standards regarding pension accounting for the Province's jointly sponsored pension plans.

From the government's perspective, the accounting treatment for jointly sponsored pension plans that was initially adopted in 2001 was and is still appropriate. Given the difference of opinion at the time, the Province filed a time-limited regulation, which legislated the accounting for pension assets of jointly-sponsored pension plans for the 2015-16 Public Accounts only. This was consistent with the fiscal outcome proposed by the Auditor General.

Since the release of the Public Accounts, the government established a Pension Asset Expert Advisory Panel to provide independent advice on the interpretation of the accounting standards to Ontario's defined benefit pension plans. This panel has now provided its report on jointly-sponsored pension plans to the government and it has been shared with the Auditor General and the public.

The government will continue to present the Province's finances fairly and accurately.

18. What do you say to the credit rating agencies who are watching all of this unfold?

Commented [EKO2]: Reminder: Reconfirm with MOF

We have been impressed with the level of cooperation and understanding of the credit rating agency community.

I would say we have achieved clarity on this complex accounting issue.

We are committed to balancing the Budget by 2017-18, and remaining balanced in 2018-19. At the same time, we will continue to invest in vital government services, such as health care, education and infrastructure that are important to the people of Ontario.

19. How will skyrocketing executive pay in the college sector affect the government's path to balance?

Ontario has implemented a framework for broader public sector executive compensation, including capping salary and performance-related payments.

The Executive Compensation Framework regulation came into force on September 6, 2016 and applies to all designated employers under the Broader Public Sector Executive Compensation Act, 2014 (BPSECA).

The Executive Compensation Framework is designed to ensure transparency and accountability in how broader public sector employers set executive compensation. Under the framework, designated employers must seek public comment as part of developing their executive compensation program.

The Executive Compensation Framework caps salary and performance-related payments for designated executives at no more than the 50th percentile of

Questions and Answers
Pension Asset Expert Advisory Panel Report

appropriate comparators and prohibits signing bonuses, retention bonuses, cash housing allowances and pay in lieu of perquisites.

These requirements will ensure that broader public sector organizations are accountable for compensation decisions and are able to attract and retain the necessary talent to deliver high quality public services while managing public dollars responsibly.

20. How long have you had the report?

The panel submitted its report in late January. We've used this time to analyze the recommendations, and prepare it for public release.

21. When you announced the panel in October 2016, you said the report was due to the President of the Treasury Board and the Auditor General of Ontario by the end of 2016. What happened?

When the panel was announced in October 2016, we had not yet identified the members. Once the panel was established, it was determined by the members that they would need additional time to conduct a thorough review of the issues at hand.

22. Were the panel's recommendations unanimous?

Yes, the panel's recommendations were unanimous.

23. Would you still have accepted the panel's recommendations if they weren't favourable to you?

I'm not going to speculate on something that didn't happen.

What I will say is that the panel took every effort to ensure that it had a complete understanding of the facts and studied this complex issue extensively. We are pleased that the panel's results are consistent with Ontario's view that net pension assets for jointly-sponsored plans and should continue to be recognized in the Province's financial statements, as they have been for the past 14 years.

24. Your government keeps establishing panels to resolve your issues. Why can't you just make a decision?

Pension accounting is a complex issue. We need the best advice in order to make well-informed decisions. Sometimes this means seeking independent expertise.

The Pension Asset Expert Advisory Panel members were carefully chosen for their expertise in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

With the help of the unique professional skillsets and perspectives of the independent advisory panel, we now have additional advice on how public sector accounting standards should be interpreted as they apply to jointly-sponsored pension plans.

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BACKGROUND QUESTIONS:

Jointly-sponsored Pension Plans:

25. What is a jointly-sponsored pension plan?

A joint defined benefit plan is a contractual arrangement between the government and another sponsor or sponsors representing plan participants

The Ontario Public Service Employees Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.

The sponsors have shared control over the retirement benefit plan, and ensure that neither party is in a position to control the plan unilaterally. The assets of both pension plans are held in a trust for the beneficiaries of the plans. The plans are co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between both parties.

26. What did the Pension Asset Expert Advisory Panel do?

The Pension Asset Expert Advisory Panel has delivered advice and recommendations to the government on the application of Public Service Accounting Standards (PSAS) to Ontario's net pension assets for two joint defined benefit pension plans – Ontario Teachers' Pension Plan and Ontario Public Service Employees' Union Pension Plan.

The panel agrees that the net pension asset for each plan should be recognized as part of the Province's financial position.

Recognizing the asset will provide a faithful representation of Ontario's financial position.

27. How did the panel reach its conclusions?

The panel received and reviewed background information, including the governing documents of the plans and related agreements. It also received analyses from both the government and the Auditor General, setting out their respective understanding of the facts and their conclusions.

The panel met with both the government's professional accounting staff and the Auditor General and her Public Accounts staff responsible for the pension issue to ensure the panel fully understood their thinking. The panel then performed its own independent analysis of the documents and of the legal, actuarial and accounting issues using the expertise and experience of its members.

28. Who was on the panel?

The membership of the Pension Asset Expert Advisory Panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans governance, actuarial modelling for pension plans and Public Sector Accounting Standards.

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The panel included:

- Tricia O'Malley (Chair)
- Murray Gold
- Uros Karadzic and
- Paul Martin.

29. How much will they be paid? What was the total cost spent on this report?

The Chair will be compensated at \$2,000 per diem and \$1,900 per diem for the other members.

Panel members will also be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

The total amount the panel will be paid will be determined once their work is complete. According to the panel terms of reference, this is scheduled to end on March 31, 2017.

IF ASKED ABOUT PAUL MARTIN:

As a member of the public service of the Province of New Brunswick, Mr. Martin did not receive compensation. He was only eligible for expense reimbursements.

Ontario's Financial Position:

Commented [EK03]: Reminder: Reconfirm with MOF

30. Some have said your government has a spending problem, not a revenue problem. What do you say to that?

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row.

The government is projecting a balanced the budget by 2017-18, and remaining balanced in 2018-19.

The improvement over plan was due in large part to the Ontario government's strong focus on managing growth in spending. Ontario consistently has the lowest per capita program spending among all Canadian provinces.

Over the past four years the Province has held the average annual growth in program spending to 1.9 per cent, less than the rate of inflation, while investing in services that people rely on.

Key elements of the government's plan to eliminate the deficit are:

- Program Review, Renewal and Transformation
- Managing compensation costs
- Maintaining tax fairness and a level playing field for business
- Strengthening government transparency, financial management and fiscal accountability

Questions and Answers
Pension Asset Expert Advisory Panel Report

31. The FAO has warned that if Ontario's fiscal position deteriorates beyond 2017-18, the four international credit rating agencies could lower Ontario's credit rating, which could lead to higher borrowing costs and more challenging fiscal position. What is the government doing to manage the debt?

The government remains firmly committed to balancing the budget by 2017-18, and remaining balanced in 2018-19.

Even with adopting the Auditor General's view of the 2015-16 Public Accounts, the government still beat its annual deficit target for the seventh year in a row. This reflects the government's responsible and balanced approach to fiscal management.

Given ongoing challenges in the broader economic environment, the government recognizes that now is the time to be making investments in people, modern infrastructure and a dynamic and innovative business climate — investments that will help to spur economic growth and create the new jobs necessary to support eliminating the deficit.

Alongside these strategic investments, the government is also taking deliberate actions to ensure it can continue to manage spending and improve outcomes for Ontarians. Together, these investments and deliberate actions will help ensure that the priority programs and services that people rely on are maintained and enhanced while the deficit is eliminated.

32. How does the Province plan to reduce its net debt-to-GDP ratio to its pre-recession level of 27 per cent?

The first step in returning to the targeted 27 per cent net debt-to-GDP ratio is to balance the budget.

Once the budget is balanced, debt will continue to rise by the difference between the annual cash investment in capital and the amortization of these investments. These investments will contribute to the debt rising at a slower rate than the increase in the Province's GDP, over time lowering the net debt-to-GDP ratio to the government's 27 per cent target.

Legislated Accounting:

33. Is the disagreement over accounting standards an indication of financial mismanagement on the part of government?

No. The Province's financial results show that the government has once again beaten its annual deficit targets and is on track for a balanced budget by 2017-18 and remaining balanced in 2018-19.

Prior to implementing the change to the 2015-16 Public Accounts, the government had followed the same pension accounting treatment for the past 14 years. This had been accepted by the current Auditor General for the last two years and by three previous Auditors General. There has been no change to the relevant accounting standards over the past 14 years.

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In fact, Ontario has a strong track record of producing high-quality financial reports on a timely basis. Prior to 2015-16, Ontario had clean audit opinions for 22 years.

Pension Asset Expert Advisory Panel Report Press Conference

**Statement by
The Honourable Liz Sandals**

February 13, 2017

Time TBC

Location TBC

Toronto, Ontario

Estimated Length: 2 minutes (XXX words)

- Today, the Pension Asset Expert Advisory Panel released its report to the government.
- This independent panel was formed to deliver advice and recommendations on a complex accounting issue.
- The issue was the interpretation of accounting standards to Ontario's jointly sponsored pension plans.
- The panel members have expertise in the areas of public sector accounting standards, actuarial modelling, and legal frameworks of pension plans.
- I would like to thank the panel for their thorough analysis and recommendations on this important issue.
- We are pleased that the panel's results support Ontario's view that the net pension assets for Ontario's jointly sponsored plans should continue to be recognized in the province's financial statements, as they have been for the past 14 years.

- Ontario is accepting the panel's findings, which help to confirm the Province's accounting policy for pensions in the Province's financial reports.
- Consistent with the Panel's recommendations, the Province will record an asset in its financial statements for its share of a surplus reported in the accounting valuations of its two jointly sponsored pension plans:
 - o the Ontario Teachers' Pension Plan, and
 - o the Ontario Public Sector Employees' Union Pension Plan.
- By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit has been lowered to \$3.5B, from the \$5B originally reported in the 2015-16 Public Accounts.

- Transparency and accountability in financial reporting, and responsible fiscal management are a key priorities for this government.
- We remain firmly committed to achieving a balanced budget by 2017-18, and remaining balanced in 2018-19, while continuing to invest in the priorities that matter to Ontarians.
- We will continue to present the province's finances fairly and accurately as we work to improve the lives of all Ontarians.
- I will now turn it over to my colleague, Minister Sousa, who will deliver a brief statement. Following that we would be happy to take your questions.

From: MacIntyre, Kyle (TBS) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Fwd: Draft opinion
Date: Tuesday, September 27, 2016 07:42:16
Attachment 1: Treasury Board Secretariat_ Accounting opinion_Draft_Sept 27_Master to AG.pdf
Attachment 2: ATT00001.htm
Attachment 3: statement of facts Sept 27.docx
Attachment 4: ATT00002.htm

Begin forwarded message:

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: September 27, 2016 at 7:26:12 AM EDT
To: "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
Subject: Fw: Draft opinion

Fyi. The AG requested additional changes to the statement of facts late last night. We have reviewed the changes which were made except for one (which was an interpretation). In addition, she requested to see a draft of the opinion.

Both of those documents are attached.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>
Sent: Tuesday, September 27, 2016 07:17
To: Bonnie Lysyk; Colley, Matthew (CA - Toronto)
Cc: Bill Pelow; Veinot, Cindy (TBS); Petsche, Nadine (TBS)
Subject: Draft opinion

Hello, Bonnie. Please find attached our draft opinion, incorporating changes to the facts based on your comments. I've also enclosed a word version of the facts in case you want to provide further comments in that format. Please let me know if there is anything in the facts we should discuss at this point.

We are looking forward to receiving your confirmation of the facts so we can proceed. Thank you.

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

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kdanyluk@deloitte.ca | deloitte.ca

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September xx, 2016

Private and confidential

Ms. Karen Hughes
Associate Deputy Minister,
Treasury Board Secretariat,
7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

Dear Ms. Hughes:

We have been engaged to report on the appropriate application of certain aspects of Canadian public sector accounting standards to the recognition of the accrued benefit asset (also referred to in this report as the Pension Asset or the Asset) related to the Ontario Teachers' Pension Plan (OTPP the Plan) in the Province of Ontario's (also referred to as the Province or the Government of Ontario in this report) accounts as at March 31, 2016. This report is being issued to the Associate Deputy Minister of the Treasury Board Secretariat of the Government of Ontario. Our engagement has been conducted in accordance with Canadian generally accepted standards for such engagements.

It should be noted that the responsibility for the proper accounting treatment rests with the preparers of the financial statements, who should consult with their incumbent auditor. Our judgment on the appropriate application of Canadian public sector accounting standards for the specific issue being discussed is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

Statement of Facts and Assumptions (NTD: these facts and assumptions may change, possibly resulting in significant changes to any and all content in this draft letter.)

It should be noted that the following background and facts represent a fairly high level summary of the situation and represent those facts that we considered important in reaching our opinion. They do not purport to be a complete representation of all of the terms of the OTPP or the agreements between the government and the Ontario Teachers' Federation (OTF). Management has acknowledged their agreement with this summary. If the facts are incomplete or different, then our conclusions may change.

"The (Ontario Teachers') pension plan is jointly sponsored by the Ontario government, through the Minister of Education, and the executive of the Ontario Teachers' Federation (OTF). The OTF represents teachers, while the government represents employers.

OTF and the government are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations. In addition, they appoint experienced, professional experts to the pension plan's Board.

Through a six-member Partners' Committee, the sponsors jointly:

- Set benefit levels
- Establish the contribution rate paid by working teachers (which is matched by the Ontario government and other designated employers)
- Decide how to address funding shortfalls or use surplus funds when they arise"

(Source: <https://www.otpp.com/corporate/plan-governance>)

The governing and other documents that are relevant to the accounting analysis are as follows:

- Teachers' Pension Act (TPA), including Schedule 1
- Partners' Agreement
- Funding Management Policy (FMP)

The assets of the pension plan are held by Ontario Teachers' in trust for the beneficiaries of the plan – teachers. The Government does not have unilateral access to the assets of the trust (including changing contribution amounts, taking contribution holidays, or withdrawals).

The following facts and assumptions have been accepted without further analysis or verification:

- As a jointly sponsored plan, the Plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes, before considering the appropriateness of the recognition of an asset or the need for a valuation allowance related to any asset, are appropriate and meet the requirements of S. 3250.
- The Plan's most recent preliminary funding valuation reported a preliminary funding surplus of \$13.2 billion as at January 1, 2016, as reported on the OTPP website. The OTPP's public financial statements showed a deficit for accounting purposes of \$1.8 billion in its financial statements as at December 31, 2015. These financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit.
- As at March 31, 2016, there were no written agreements in place for the Province to unilaterally access the surplus to reduce future minimum contributions or withdraw any amounts from the plan.

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Commented [DK(-T1)]: The AG has suggested adding the following: However, we recognize that the significant difference between the discount rate used by OTTP and the discount rate used by the Province has contributed to the issue of a Pension Asset on the Government's financial statements that we are recommending be corrected. Our cross Canada review indicated that this situation is a significant anomaly in Canada.

We can acknowledge that the Pension Asset has arisen because contributions and asset growth in the plan has outpaced the growth of the obligation for benefits under the Province's application of PS 3250.

However, the AG's statement above represents the AG's view and is a conclusion of sorts and not a fact. We also have no basis to agree with the anomaly comment. Therefore we respectfully decline to include any statements to the effect suggested.

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- The OTPP is regulated by the **Financial Services Commission of Ontario. Funding plans must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.**
- Management has received legal commentary about the role of the Superintendent. From this advice, management has concluded that despite this regulation the Province could utilize a surplus through contribution reductions as “Neither the PBA nor the regulations to the PBA (the “Regulations”) require the Superintendent’s consent for surplus to be utilized for a contribution holiday or to amend the contribution formula under the OTPP.” Further, although changes to the OTPP text would be required to be registered with the Superintendent, “The authority of the Superintendent to refuse to register an amendment under the PBA (in whole or in part) is limited to circumstances where the amendment is void or if the pension plan with the amendment would cease to comply with the PBA and the Regulations.” (Source: Osler memo dated September 26, 2016). **We acknowledge that the Auditor General of Ontario is not in a position to confirm this information. Nevertheless, we have relied on the Osler’s memo and management’s conclusions without further analysis verification.**
- **The Auditor General’s Office has indicated in their letter of September 26, 2016 that they are of the view that the Pension Asset in question is not controlled by the Government and does not meet the definition of an Asset under PS3210, but meets the definition of a Contingent Asset under PS3320. Contingent Assets are not recorded in financial statements, but can be disclosed in the notes to the financial statements.**

Relevant Extracts from the TPA

Section 5 (1.1) of the TPA states that the total amount of contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year. There can be instances where contributions would not be equal between the sponsors, such as the government’s payments in connection with forgone inflation **adjustments**.

Section 10 of the TPA provides that the Minister of Education and the executive of OTF may enter into an agreement that provides for, among other things, the joint management of the Plan and the sharing of entitlement to gains or surplus under the **Plan** and of liability for deficiencies in the pension fund.

Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Partners) have entered into an agreement for the management of the Plan (Partners’ Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the **Partners’ Agreement**.¹ The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners can deviate from the FMP by agreement.

Relevant Extracts from the Partners’ Agreement

The Partners’ Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement

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¹ Partners’ Agreement, section 110.

states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the Plan, this agreement or other Plan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the OTTP Board, and defining the role of the Board.

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Paragraph 74 requires negotiation in good faith regarding changes to the Plan that flow from a valuation that is be filed with the regulators.

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Paragraph 75 of the Partners' Agreement requires the Partners to advise the Board of OTTP of what changes affecting benefits and contribution rates they are proposing so that the Board can provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

If the partners cannot agree on the changes required to the Plan, a mediator is appointed to assist the Partners in coming up with an agreement. The mediator is responsible for submitting a report to the partners on his or her views on the positions of the partners and provide a recommendation to the Partners. If the partners do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented. Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

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In addition to the clauses identified above, the Partners' Agreement has an appendix called the Funding Management Policy which sets out the Partners' responsibilities in making funding decisions and surplus allocation regarding the Plan.

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Relevant Extracts from the FMP

The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTTP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTTP.

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The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:

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- i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
- ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
- iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for

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actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the Partners are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

It is our understanding that the Plan is currently in the Restoration Zone. We understand that contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both partners, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

If the Plan gets to either the temporary improvement zone or the permanent improvement zone, section 4.06 and subsection 5.05(b) of the FMP provides that a benefit improvement can only occur if the partners (the Ontario government and the OTF) have entered into a written agreement governing the manner in which the contribution by the government and other employers may be adjusted to offset any surplus distribution or benefit improvement (temporary or permanent) to be granted.

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Application of Accounting Principles

Specifically, our report addresses the following questions:

1. Is it necessary for a government to have a legally enforceable right to reduce future contributions in order to recognize a Pension Asset under PS 3250?
2. What is the role of legal uncertainty in assessing the government's expectation of future benefit from a Pension Asset?

Our views in this report are confined to these two questions and do not extend to any earlier reports provided by Deloitte or to any other analysis that may have been presented in draft or in a more informal manner.

Authoritative Literature

In our analysis, we considered the pronouncements and guidance in Section 3250 of the CPA Public Sector Accounting Standards Handbook. What we considered to be the most relevant passages from PS 3250 are reproduced below:

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]

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.

Disclosure

.083 The notes and schedules integral to the financial statements would disclose the methods and judgments applied in accounting for accrued benefit obligations and expenses. Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence.

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.

We also considered the following definitions as set out in the glossary of PS 3250:

- 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.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

CONSIDERATION OF QUESTION 1

Application of PS 3250 to Joint Defined Benefit Plans

A joint defined benefit plan is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. We would note that paragraph .081 of PS 3250 clearly states that a government should account for its portion of the plan in accordance with the standards for defined benefit plans. As a result, the Province of Ontario accounts for its proportionate share of OTPP and has historically recorded its share as 50% of the plan.

The Province of Ontario's Public Accounts have included a Pension Asset related to OTPP since fiscal 2001/2002. We have been informed that this situation has arisen because, to this point in time, the government's share of the total contributions to the Plan plus the actual investment returns on the Plan's assets have exceeded the government's share of the accumulated retirement benefit expense. The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by S 3250. S 3250.51 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: "Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons."

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (3250.42) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (3250.41). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. 3250.57 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province of Ontario has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on Plan Assets, which is one of the acceptable references suggested on PS 3250.44. We express no view on the actual rates that were chosen.

Application of the limit on the carrying amount of an accrued benefit asset

PS 3250.50 requires that 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. This comparison between the adjusted benefit asset and the

expected future benefit informs whether a valuation allowance is required and if so, how much of a valuation allowance should be recorded. (It should be noted that “accrued benefit asset” and “adjusted benefit asset” are defined terms used in S. 3250. As at March 31, 2016, in this particular case, management has represented to us that these two amounts are the same.)

PS 3250.52 contemplates that there are two ways in which a government can benefit from an accrued benefit asset. 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. As such, an expected future benefit would include the ability to either withdraw plan assets from the plan or reduce future contributions.

PS3250.52 also goes on to consider that an accrued benefit asset may become impaired when there is a plan surplus that the government is not entitled to benefit from fully. The paragraphs in the standard that follow determine how a government would go about considering the extent of any impairment, which would give rise to a valuation allowance. In order to make this determination, the government is required to consider the “expected future benefit”, which would effectively create a ceiling for the asset. Here the guidance diverges between benefit expected to be realized through future reductions in contributions and those to be realized through withdrawal of surplus.

Specifically with respect to withdrawal of surplus, PS 3250.59 is very clear that expected future benefit can only be asserted where the government has a current legally enforceable right to withdraw assets from the Plan. We considered whether this guidance should be applied to cases where the expected future benefit related to the Pension Asset is expected to be realized through reduced contributions and concluded that the guidance does not apply in this situation; while PS 3250.59 does introduce the concept of a legally enforceable right, it does so solely in the context of a government’s future withdrawal of a Plan surplus, and not in the context of a government’s reduction of future contributions. We believe that the standard setters deliberately and justifiably established a higher hurdle for surplus withdrawal, which involves removing assets that had previously been placed in trust for retiree benefits. We further believe it reasonable to consider that if the standard setters had intended legal enforceability to be the test, they would have included that notion throughout the guidance, instead of only raising it in the context of a withdrawal of surplus. In the situation at hand, the Province is not asserting an expected future benefit based on surplus withdrawal. Instead the Province’s position is that the future benefit is expected to be realized through future contribution reductions. Therefore, we do not believe that 3250.59 applies in this case.

Additionally, in forming our view on the application of PS 3250 to Joint Defined Benefit Plans, we noted that there is specific guidance (PS 3250.81) that requires the Government to account for a portion of the Plan in accordance with the standards for defined benefit plans.

For the reasons stated above, we are of the view for Question 1, that legal enforceability of a government’s right to access a pension plan surplus through future contribution reductions is not necessary to justify recognition of a Pension Asset. We believe that the guidance in PS 3250 is the primary source of GAAP on this topic and, since it is clear, there is no need to look at any other potential sources of GAAP.

CONSIDERATION OF QUESTION 2

Since we have concluded that we do not consider legal enforceability to be a necessary requirement to support a government’s right to access a pension plan surplus through future contribution reductions, we further considered what role legal considerations should play in the measurement of the Pension Asset. We note that PS 3250.52 requires one to consider “uncertainties as to a government’s legal right to use a

plan's accounting surplus." Our interpretation of this guidance is that it presents a lower threshold than legal enforceability. Specifically, the amount of Pension Asset that gets recorded needs to be subject to considerations around any legal uncertainties. This consideration will involve significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a Pension Asset.

PS 3250.53 to .58 lay out a mathematical calculation that determines the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in PS3250.055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where realization includes a reduction in future contributions. A valuation allowance is recorded against the Pension Asset to limit the asset value, if necessary, based on this analysis.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. This calculation is further described in PS 3250.56(a), which sets out that the government's calculation of expected future benefit would be 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. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per PS 3250.81 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. The expected future benefit would operate as a ceiling on the Pension Asset value to be recorded in the accounts. For example, if the Pension Asset were \$150, but the expected future benefit calculated as described above were \$100, a valuation allowance of \$50 would be recorded against the Pension Asset and the asset recorded in the government's financial statements would be reduced to \$100.

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in the determination of future minimum contributions required to be made by the government regardless of any surplus. There is no further guidance in S 3250 as to how this calculation should be performed and what restrictions or parameters should be factored into this calculation.

Determining the number of years of contributions to include should involve consideration of legal uncertainty as set out in PS 3250.52. It is not the purpose of this report to resolve the question of at what point this uncertainty would be sufficiently low regarding when contribution reductions may reasonably be expected. However, we would observe that there are a number of considerations that are relevant to consider. As part of this analysis, we reviewed Osler's legal letter of September 20, 2016. That letter makes a number of observations about the Plan agreements and governing documents that we will not reiterate here. Osler's do note that legal enforceability does not exist. However, as noted above we do not believe that legal enforceability is required in this case.

Future reductions in contributions will need to be negotiated and agreed between both sponsors, who are required under the Plan governing documents to bargain in good faith. There are a number of factors to consider and it is possible for reasonable professionals to arrive at different conclusions, even when confronted with the same set of facts and circumstances. These considerations will be highly judgmental.

With respect to these judgments, we offer the following observations:

- Plan documents and design contemplates the shared nature of the Plan.
- Section 10 of the Partners agreement require that the partners meet every 3 years to discuss changes to the Plan.
- As described to us by management, there was a long history of sharing surpluses through various mechanisms during the 1990's when funding surpluses were more common. The FMP also contemplates a sharing of surpluses.
- As described to us by management, in addition to the history of surplus utilization noted in the facts and assumptions, it is worth noting that the actions taken around inflation indexation and subsequent restoration of those benefits are a recent example of the sharing philosophy governing operation of the OTPP. Starting in 2011 in response to a deficit situation, it was determined that indexation would be reduced for teachers retiring after 2009. Consistent with the 50/50 approach inherent in the Plan operation, the government agreed to make payments into the Plan that would effectively match the value of benefits foregone by teachers. In 2014, 2015 and 2016, surpluses were used to restore some of the lost indexation. This decision results in a decrease in the Province's share the pain payments.
- The FMP explicitly considers the possibility of contribution reductions at different funding levels, although both sponsors need to agree. The OTPP's investment performance has consistently outperformed expectations. If this situation continues the funding surplus will only continue to grow. Modelling could be performed to help estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- We also note that Canada Revenue Agency establishes limits for pension surpluses. When these limits are breached, steps need to be taken to reduce the surplus. In such a situation, contribution reductions would be one way to reduce the surplus that would need to be negotiated by the parties within their overall framework for negotiation. Again, modelling could be done to develop expectations as to when these CRA limits could be expected to be reached.
- Contributions are borne equally by the Province and the teachers. It may be reasonable to presume that teachers will also want to see contribution reductions at some point. Admittedly, increases in benefits could also use any surplus; however, it may be reasonable to expect that the interests of taxpayers and teachers will need to be weighed in the "good faith" bargaining process such that unequal weighting towards increases in benefits may be unlikely.
- In determining the range of possible outcomes, it is noted that measurement uncertainty may exist (PS 2130.03). This paragraph also notes that many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. As noted in PS 2130.13, "As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements."

However, application and weighting of these and other considerations is a highly judgmental exercise and it is possible that there is a range of reasonable conclusions that may result in a range of reasonable

estimates for the valuation allowance to be taken against the Pension Asset. We are unable to opine on whether a valuation allowance is needed, and if so, what a reasonable range of estimates would be.

Given the complexities and degree of judgment involved in these matters, appropriate disclosure is a matter of significance as is recognized in 3250.83 which states, in part, "*Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence*". This importance is also highlighted in the context of joint benefit plans in 3250.93 which requires that the unique nature and terms of any joint plans be disclosed.

We would also note that, Deloitte provided a report dated August 18, 2016 entitled Asset Ceiling Calculations for the Ontario Teacher's Pension Plan in conjunction with management that was used by management as part of their analysis to determine that no valuation allowance was required against their Pension Asset as at March 31, 2016. That report was prepared solely to assist management in preparing their own analysis. We were not engaged to and did not express an opinion on the amount of or need for any valuation allowance, nor do we express an opinion on this analysis at this point. Reference to the August 18, 2016 report in this report should in no way be construed to be an opinion on that earlier report.

The ultimate responsibility for the decision on the appropriate application of Canadian Public Sector Accounting Principles for the specific transaction described above rests with management as preparers of the financial statements, who should consult with the Auditor General of Ontario. Our judgment on the appropriate application of Canadian Public Sector Accounting Standards for the specific situation described above is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

This report is intended solely for the information and use of Ms. Karen Hughes and management of Her Majesty the Queen in right of Ontario, as represented by the president of Treasury Board through the Office of the Provincial Controller and is not intended to be and should not be used by anyone other than the above party and the Auditor General of Ontario or for any other purpose. For further clarity, this report should not be distributed to anyone outside those named in the previous sentence, nor should it be quoted from outside this group for any purpose. Please contact Kerry Danyluk, National Director of Accounting Services, regarding any questions about the content of this report (416 775-7183 or kdanyluk@deloitte.ca).

(To be signed Deloitte LLP)
Chartered Professional Accountants
Licensed Public Accountants
September XX, 2016
Toronto, Canada

Statement of Facts and Assumptions

It should be noted that the following background and facts represent a fairly high level summary of the situation and represent those facts that we considered important in reaching our opinion. They do not purport to be a complete representation of all of the terms of the OTTP or the agreements between the government and the Ontario Teachers' Pension Plan Federation (OTF). Management has acknowledged their agreement with this summary. If the facts are incomplete or different, then our conclusions may change.

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"The (Ontario Teachers') pension plan is jointly sponsored by the Ontario government, through the Minister of Education, and the executive of the Ontario Teachers' Federation (OTF). The OTF represents teachers, while the government represents employers.

OTF and the government are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations. In addition, they appoint experienced, professional experts to the pension plan's Board.

Through a six-member Partners' Committee, the sponsors jointly:

- Set benefit levels
- Establish the contribution rate paid by working teachers (which is matched by the Ontario government and other designated employers)
- Decide how to address funding shortfalls or use surplus funds when they arise"

(Source: <https://www.otpp.com/corporate/plan-governance>)

The governing and other documents that are relevant to ~~the~~ accounting analysis are as follows:

- Teachers' Pension Act (TPA), including Schedule 1
- Partners' Agreement
- Funding Management Policy (FMP)

The assets of the pension plan are held by Ontario Teachers' in trust for the beneficiaries of the plan – teachers. The Government does not have unilateral access to the assets of the trust (including changing contribution amounts, taking contribution holidays, or withdrawals).

The following facts and assumptions have been accepted without further analysis or verification:

- As a jointly sponsored plan, the plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes, before considering the appropriateness of the recognition of an asset or the need for a valuation allowance related to any asset, are appropriate and meet the requirements of S. 3250.
- The Plan's most recent preliminary funding valuation reported a preliminary funding surplus of \$13.2 billion as at January 1, 2016, as reported on the OTTP website. The OTTP's public financial statements showed a deficit for accounting purposes of \$1.8 billion in its financial statements as at December 31, 2015. These financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit.
- As at March 31, 2016, there were no written agreements in place for the Province to unilaterally access the surplus to reduce future minimum contributions or withdraw any amounts from the plan.

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We can acknowledge that the Pension Asset has arisen because contributions and asset growth in the plan has outpaced the growth of the obligation for benefits under the Province's application of PS 3250.

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- Management has received legal commentary about the role of the Superintendent. From this advice, management has concluded that despite this regulation the Province could utilize a surplus through contribution reductions as “Neither the PBA nor the regulations to the PBA (the “Regulations”) require the Superintendent’s consent for surplus to be *utilized* for a contribution holiday or to amend the contribution formula under the OTPP.” Further, although changes to the OTPP text would be required to be registered with the Superintendent, “The authority of the Superintendent to refuse to register an amendment under the PBA (in whole or in part) is limited to circumstances where the amendment is void or if the pension plan with the amendment would cease to comply with the PBA and the Regulations.” (Source: Osler memo dated September 26, 2016). We acknowledge that the Auditor General of Ontario is not in a position to confirm this information. Nevertheless, we have relied on the Osler’s memo and management’s conclusions without further analysis verification.
- The Auditor General’s Office has indicated in their letter of September 26, 2016 that they are of the view that the Pension Asset in question is not controlled by the Government and does not meet the definition of an Asset under P53210, but meets the definition of a Contingent Asset under P53320. Contingent Assets are not recorded in financial statements, but can be disclosed in the notes to the financial statements.

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Relevant Extracts from the TPA

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Commented [DK(-T2): Deletion suggested by the AG

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Section 10 of the TPA provides that the Minister of Education and the executive of OTF may enter into an agreement that provides for, among other things, the joint management of the Plan and the sharing of entitlement to gains or surplus under the plan Plan and of liability for deficiencies in the pension fund.

Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Partners) have entered into an agreement for the management of the Plan (Partners’ Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners’ a Agreement.¹ The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners can deviate from the FMP by agreement.

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The Partners’ Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement

¹ Partners’ Agreement, section 110.

states that the partners will be responsible for designing the Pplan structure, setting the benefits of the Pplan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the Pplan, this agreement or other planPlan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the OTTP Board, and defining the role of the Board.

Paragraph 74 requires negotiation in good faith regarding changes to the planPlan that flow from a valuation that is be filed with the regulators.

Paragraph 75 of the Partners' Agreement requires the Partners to advise the Board of OTTP of what changes affecting benefits and contribution rates they are proposing so that the Board can provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

If the partners cannot agree on the changes required to the planPlan, a mediator is appointed to assist the Partners in coming up with an agreement. The mediator is responsible for submitting a report to the partners on his or her views on the positions of the partners and provide a recommendation to the Partners. If the partners do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented. Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

In addition to the clauses identified above, the Partners' Agreement has an appendix called the Funding Management Policy which sets out the Partners' responsibilities in making funding decisions and surplus allocation regarding the planPlan.

Relevant Extracts from the FMP

The FMP is an appendix to the Partners' Agreement that speaks to how the planPlan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTTP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTTP.

The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the planPlan. The following three are most relevant to addressing surpluses:

- i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
- ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
- iii) Permanent improvement zone is where the planPlan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for

actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the Partners are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

It is our understanding that the ~~plan~~Plan is currently in the Restoration Zone. We understand that contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both partners, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

If the ~~plan~~Plan gets to either the temporary improvement zone or the permanent improvement zone, section 4.06 and subsection 5.05(b) of the FMP provides that a benefit improvement can only occur if the partners (the Ontario government and the OTF) have entered into a written agreement governing the manner in which the contribution by the government and other employers may be adjusted to offset any surplus distribution or benefit improvement (temporary or permanent) to be granted.

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DRAFT

From: MacIntyre, Kyle (TBS) []
To: McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Fwd: Draft opinion
Date: Tuesday, September 27, 2016 07:53:14
Attachment 1: Treasury Board Secretariat_ Accounting opinion_Draft_Sept 27_Master to AG.pdf
Attachment 2: ATT00001.htm
Attachment 3: statement of facts Sept 27.docx
Attachment 4: ATT00002.htm

Begin forwarded message:

From: "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>
To: "Orsini, Steve (CAB)" <Steve.Orsini@ontario.ca>, "Bromm, William (CAB)" <William.Bromm2@ontario.ca>
Cc: "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
Subject: Fwd: Draft opinion

Steve FYI.

Begin forwarded message:

From: "Veinot, Cindy (TBS)" <Cindy.Veinot@ontario.ca>
Date: September 27, 2016 at 7:26:12 AM EDT
To: "Hughes, Karen (TBS)" <Karen.Hughes@ontario.ca>, "Orencsak, Greg (TBS)" <Greg.Orencsak@ontario.ca>, "Thompson, Scott (MOF)" <Scott.Thompson@ontario.ca>
Cc: "Petsche, Nadine (TBS)" <Nadine.Petsche@ontario.ca>, "Laughton, Patrick (TBS)" <Patrick.Laughton@ontario.ca>, "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
Subject: Fw: Draft opinion

Fyi. The AG requested additional changes to the statement of facts late last

night. We have reviewed the changes which were made except for one (which was an interpretation). In addition, she requested to see a draft of the opinion.

Both of those documents are attached.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Danyluk, Kerry (CA - Toronto) <kdanyluk@deloitte.ca>

Sent: Tuesday, September 27, 2016 07:17

To: Bonnie Lysyk; Colley, Matthew (CA - Toronto)

Cc: Bill Pelow; Veinot, Cindy (TBS); Petsche, Nadine (TBS)

Subject: Draft opinion

Hello, Bonnie. Please find attached our draft opinion, incorporating changes to the facts based on your comments. I've also enclosed a word version of the facts in case you want to provide further comments in that format. Please let me know if there is anything in the facts we should discuss at this point.

We are looking forward to receiving your confirmation of the facts so we can proceed. Thank you.

Kerry

--

Kerry Danyluk

Partner | National Accounting and Assurance

D: +1 (416) 775 7183

kdanyluk@deloitte.ca | deloitte.ca

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September xx, 2016

Private and confidential

Ms. Karen Hughes
Associate Deputy Minister,
Treasury Board Secretariat,
7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

Dear Ms. Hughes:

We have been engaged to report on the appropriate application of certain aspects of Canadian public sector accounting standards to the recognition of the accrued benefit asset (also referred to in this report as the Pension Asset or the Asset) related to the Ontario Teachers' Pension Plan (OTPP the Plan) in the Province of Ontario's (also referred to as the Province or the Government of Ontario in this report) accounts as at March 31, 2016. This report is being issued to the Associate Deputy Minister of the Treasury Board Secretariat of the Government of Ontario. Our engagement has been conducted in accordance with Canadian generally accepted standards for such engagements.

It should be noted that the responsibility for the proper accounting treatment rests with the preparers of the financial statements, who should consult with their incumbent auditor. Our judgment on the appropriate application of Canadian public sector accounting standards for the specific issue being discussed is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

Statement of Facts and Assumptions (NTD: these facts and assumptions may change, possibly resulting in significant changes to any and all content in this draft letter.)

It should be noted that the following background and facts represent a fairly high level summary of the situation and represent those facts that we considered important in reaching our opinion. They do not purport to be a complete representation of all of the terms of the OTPP or the agreements between the government and the Ontario Teachers' Federation (OTF). Management has acknowledged their agreement with this summary. If the facts are incomplete or different, then our conclusions may change.

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(Source: <https://www.otpp.com/corporate/plan-governance>)

The governing and other documents that are relevant to the accounting analysis are as follows:

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The following facts and assumptions have been accepted without further analysis or verification:

- As a jointly sponsored plan, the Plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes, before considering the appropriateness of the recognition of an asset or the need for a valuation allowance related to any asset, are appropriate and meet the requirements of S. 3250.
- The Plan's most recent preliminary funding valuation reported a preliminary funding surplus of \$13.2 billion as at January 1, 2016, as reported on the OTPP website. The OTPP's public financial statements showed a deficit for accounting purposes of \$1.8 billion in its financial statements as at December 31, 2015. These financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit.
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Paragraph 75 of the Partners' Agreement requires the Partners to advise the Board of OTTP of what changes affecting benefits and contribution rates they are proposing so that the Board can provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

If the partners cannot agree on the changes required to the Plan, a mediator is appointed to assist the Partners in coming up with an agreement. The mediator is responsible for submitting a report to the partners on his or her views on the positions of the partners and provide a recommendation to the Partners. If the partners do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented. Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

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In addition to the clauses identified above, the Partners' Agreement has an appendix called the Funding Management Policy which sets out the Partners' responsibilities in making funding decisions and surplus allocation regarding the Plan.

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Relevant Extracts from the FMP

The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTTP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTTP.

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The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:

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- i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
- ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
- iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for

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actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the Partners are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

It is our understanding that the Plan is currently in the Restoration Zone. We understand that contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both partners, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

If the Plan gets to either the temporary improvement zone or the permanent improvement zone, section 4.06 and subsection 5.05(b) of the FMP provides that a benefit improvement can only occur if the partners (the Ontario government and the OTF) have entered into a written agreement governing the manner in which the contribution by the government and other employers may be adjusted to offset any surplus distribution or benefit improvement (temporary or permanent) to be granted.

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Application of Accounting Principles

Specifically, our report addresses the following questions:

1. Is it necessary for a government to have a legally enforceable right to reduce future contributions in order to recognize a Pension Asset under PS 3250?
2. What is the role of legal uncertainty in assessing the government's expectation of future benefit from a Pension Asset?

Our views in this report are confined to these two questions and do not extend to any earlier reports provided by Deloitte or to any other analysis that may have been presented in draft or in a more informal manner.

Authoritative Literature

In our analysis, we considered the pronouncements and guidance in Section 3250 of the CPA Public Sector Accounting Standards Handbook. What we considered to be the most relevant passages from PS 3250 are reproduced below:

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]

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.

Disclosure

.083 The notes and schedules integral to the financial statements would disclose the methods and judgments applied in accounting for accrued benefit obligations and expenses. Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence.

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.

We also considered the following definitions as set out in the glossary of PS 3250:

- 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.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

CONSIDERATION OF QUESTION 1

Application of PS 3250 to Joint Defined Benefit Plans

A joint defined benefit plan is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. We would note that paragraph .081 of PS 3250 clearly states that a government should account for its portion of the plan in accordance with the standards for defined benefit plans. As a result, the Province of Ontario accounts for its proportionate share of OTPP and has historically recorded its share as 50% of the plan.

The Province of Ontario's Public Accounts have included a Pension Asset related to OTPP since fiscal 2001/2002. We have been informed that this situation has arisen because, to this point in time, the government's share of the total contributions to the Plan plus the actual investment returns on the Plan's assets have exceeded the government's share of the accumulated retirement benefit expense. The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by S 3250. S 3250.51 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: "Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons."

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (3250.42) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (3250.41). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. 3250.57 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province of Ontario has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on Plan Assets, which is one of the acceptable references suggested on PS 3250.44. We express no view on the actual rates that were chosen.

Application of the limit on the carrying amount of an accrued benefit asset

PS 3250.50 requires that 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. This comparison between the adjusted benefit asset and the

expected future benefit informs whether a valuation allowance is required and if so, how much of a valuation allowance should be recorded. (It should be noted that “accrued benefit asset” and “adjusted benefit asset” are defined terms used in S. 3250. As at March 31, 2016, in this particular case, management has represented to us that these two amounts are the same.)

PS 3250.52 contemplates that there are two ways in which a government can benefit from an accrued benefit asset. 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. As such, an expected future benefit would include the ability to either withdraw plan assets from the plan or reduce future contributions.

PS3250.52 also goes on to consider that an accrued benefit asset may become impaired when there is a plan surplus that the government is not entitled to benefit from fully. The paragraphs in the standard that follow determine how a government would go about considering the extent of any impairment, which would give rise to a valuation allowance. In order to make this determination, the government is required to consider the “expected future benefit”, which would effectively create a ceiling for the asset. Here the guidance diverges between benefit expected to be realized through future reductions in contributions and those to be realized through withdrawal of surplus.

Specifically with respect to withdrawal of surplus, PS 3250.59 is very clear that expected future benefit can only be asserted where the government has a current legally enforceable right to withdraw assets from the Plan. We considered whether this guidance should be applied to cases where the expected future benefit related to the Pension Asset is expected to be realized through reduced contributions and concluded that the guidance does not apply in this situation; while PS 3250.59 does introduce the concept of a legally enforceable right, it does so solely in the context of a government’s future withdrawal of a Plan surplus, and not in the context of a government’s reduction of future contributions. We believe that the standard setters deliberately and justifiably established a higher hurdle for surplus withdrawal, which involves removing assets that had previously been placed in trust for retiree benefits. We further believe it reasonable to consider that if the standard setters had intended legal enforceability to be the test, they would have included that notion throughout the guidance, instead of only raising it in the context of a withdrawal of surplus. In the situation at hand, the Province is not asserting an expected future benefit based on surplus withdrawal. Instead the Province’s position is that the future benefit is expected to be realized through future contribution reductions. Therefore, we do not believe that 3250.59 applies in this case.

Additionally, in forming our view on the application of PS 3250 to Joint Defined Benefit Plans, we noted that there is specific guidance (PS 3250.81) that requires the Government to account for a portion of the Plan in accordance with the standards for defined benefit plans.

For the reasons stated above, we are of the view for Question 1, that legal enforceability of a government’s right to access a pension plan surplus through future contribution reductions is not necessary to justify recognition of a Pension Asset. We believe that the guidance in PS 3250 is the primary source of GAAP on this topic and, since it is clear, there is no need to look at any other potential sources of GAAP.

CONSIDERATION OF QUESTION 2

Since we have concluded that we do not consider legal enforceability to be a necessary requirement to support a government’s right to access a pension plan surplus through future contribution reductions, we further considered what role legal considerations should play in the measurement of the Pension Asset. We note that PS 3250.52 requires one to consider “uncertainties as to a government’s legal right to use a

plan's accounting surplus." Our interpretation of this guidance is that it presents a lower threshold than legal enforceability. Specifically, the amount of Pension Asset that gets recorded needs to be subject to considerations around any legal uncertainties. This consideration will involve significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a Pension Asset.

PS 3250.53 to .58 lay out a mathematical calculation that determines the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in PS3250.055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus", where realization includes a reduction in future contributions. A valuation allowance is recorded against the Pension Asset to limit the asset value, if necessary, based on this analysis.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. This calculation is further described in PS 3250.56(a), which sets out that the government's calculation of expected future benefit would be 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. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per PS 3250.81 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

PS 3250.55 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. The expected future benefit would operate as a ceiling on the Pension Asset value to be recorded in the accounts. For example, if the Pension Asset were \$150, but the expected future benefit calculated as described above were \$100, a valuation allowance of \$50 would be recorded against the Pension Asset and the asset recorded in the government's financial statements would be reduced to \$100.

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in the determination of future minimum contributions required to be made by the government regardless of any surplus. There is no further guidance in S 3250 as to how this calculation should be performed and what restrictions or parameters should be factored into this calculation.

Determining the number of years of contributions to include should involve consideration of legal uncertainty as set out in PS 3250.52. It is not the purpose of this report to resolve the question of at what point this uncertainty would be sufficiently low regarding when contribution reductions may reasonably be expected. However, we would observe that there are a number of considerations that are relevant to consider. As part of this analysis, we reviewed Osler's legal letter of September 20, 2016. That letter makes a number of observations about the Plan agreements and governing documents that we will not reiterate here. Osler's do note that legal enforceability does not exist. However, as noted above we do not believe that legal enforceability is required in this case.

Future reductions in contributions will need to be negotiated and agreed between both sponsors, who are required under the Plan governing documents to bargain in good faith. There are a number of factors to consider and it is possible for reasonable professionals to arrive at different conclusions, even when confronted with the same set of facts and circumstances. These considerations will be highly judgmental.

With respect to these judgments, we offer the following observations:

- Plan documents and design contemplates the shared nature of the Plan.
- Section 10 of the Partners agreement require that the partners meet every 3 years to discuss changes to the Plan.
- As described to us by management, there was a long history of sharing surpluses through various mechanisms during the 1990's when funding surpluses were more common. The FMP also contemplates a sharing of surpluses.
- As described to us by management, in addition to the history of surplus utilization noted in the facts and assumptions, it is worth noting that the actions taken around inflation indexation and subsequent restoration of those benefits are a recent example of the sharing philosophy governing operation of the OTPP. Starting in 2011 in response to a deficit situation, it was determined that indexation would be reduced for teachers retiring after 2009. Consistent with the 50/50 approach inherent in the Plan operation, the government agreed to make payments into the Plan that would effectively match the value of benefits foregone by teachers. In 2014, 2015 and 2016, surpluses were used to restore some of the lost indexation. This decision results in a decrease in the Province's share the pain payments.
- The FMP explicitly considers the possibility of contribution reductions at different funding levels, although both sponsors need to agree. The OTPP's investment performance has consistently outperformed expectations. If this situation continues the funding surplus will only continue to grow. Modelling could be performed to help estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- We also note that Canada Revenue Agency establishes limits for pension surpluses. When these limits are breached, steps need to be taken to reduce the surplus. In such a situation, contribution reductions would be one way to reduce the surplus that would need to be negotiated by the parties within their overall framework for negotiation. Again, modelling could be done to develop expectations as to when these CRA limits could be expected to be reached.
- Contributions are borne equally by the Province and the teachers. It may be reasonable to presume that teachers will also want to see contribution reductions at some point. Admittedly, increases in benefits could also use any surplus; however, it may be reasonable to expect that the interests of taxpayers and teachers will need to be weighed in the "good faith" bargaining process such that unequal weighting towards increases in benefits may be unlikely.
- In determining the range of possible outcomes, it is noted that measurement uncertainty may exist (PS 2130.03). This paragraph also notes that many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. As noted in PS 2130.13, "As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements."

However, application and weighting of these and other considerations is a highly judgmental exercise and it is possible that there is a range of reasonable conclusions that may result in a range of reasonable

estimates for the valuation allowance to be taken against the Pension Asset. We are unable to opine on whether a valuation allowance is needed, and if so, what a reasonable range of estimates would be.

Given the complexities and degree of judgment involved in these matters, appropriate disclosure is a matter of significance as is recognized in 3250.83 which states, in part, “*Full disclosure is particularly important for retirement obligations because the measurements depend heavily upon judgments rather than objective evidence*”. This importance is also highlighted in the context of joint benefit plans in 3250.93 which requires that the unique nature and terms of any joint plans be disclosed.

We would also note that, Deloitte provided a report dated August 18, 2016 entitled Asset Ceiling Calculations for the Ontario Teacher’s Pension Plan in conjunction with management that was used by management as part of their analysis to determine that no valuation allowance was required against their Pension Asset as at March 31, 2016. That report was prepared solely to assist management in preparing their own analysis. We were not engaged to and did not express an opinion on the amount of or need for any valuation allowance, nor do we express an opinion on this analysis at this point. Reference to the August 18, 2016 report in this report should in no way be construed to be an opinion on that earlier report.

The ultimate responsibility for the decision on the appropriate application of Canadian Public Sector Accounting Principles for the specific transaction described above rests with management as preparers of the financial statements, who should consult with the Auditor General of Ontario. Our judgment on the appropriate application of Canadian Public Sector Accounting Standards for the specific situation described above is based on the facts, circumstances and assumptions provided to us. Should the facts, circumstances or assumptions differ, our conclusion may change.

This report is intended solely for the information and use of Ms. Karen Hughes and management of Her Majesty the Queen in right of Ontario, as represented by the president of Treasury Board through the Office of the Provincial Controller and is not intended to be and should not be used by anyone other than the above party and the Auditor General of Ontario or for any other purpose. For further clarity, this report should not be distributed to anyone outside those named in the previous sentence, nor should it be quoted from outside this group for any purpose. Please contact Kerry Danyluk, National Director of Accounting Services, regarding any questions about the content of this report (416 775-7183 or kdanyluk@deloitte.ca).

(To be signed Deloitte LLP)
Chartered Professional Accountants
Licensed Public Accountants
September XX, 2016
Toronto, Canada

Statement of Facts and Assumptions

It should be noted that the following background and facts represent a fairly high level summary of the situation and represent those facts that we considered important in reaching our opinion. They do not purport to be a complete representation of all of the terms of the OTTP or the agreements between the government and the Ontario Teachers' Pension Plan Federation (OTF). Management has acknowledged their agreement with this summary. If the facts are incomplete or different, then our conclusions may change.

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"The (Ontario Teachers') pension plan is jointly sponsored by the Ontario government, through the Minister of Education, and the executive of the Ontario Teachers' Federation (OTF). The OTF represents teachers, while the government represents employers.

OTF and the government are equally responsible for ensuring the pension plan has enough money to meet its long-term pension obligations. In addition, they appoint experienced, professional experts to the pension plan's Board.

Through a six-member Partners' Committee, the sponsors jointly:

- Set benefit levels
- Establish the contribution rate paid by working teachers (which is matched by the Ontario government and other designated employers)
- Decide how to address funding shortfalls or use surplus funds when they arise"

(Source: <https://www.otpp.com/corporate/plan-governance>)

The governing and other documents that are relevant to ~~the~~ accounting analysis are as follows:

- Teachers' Pension Act (TPA), including Schedule 1
- Partners' Agreement
- Funding Management Policy (FMP)

The assets of the pension plan are held by Ontario Teachers' in trust for the beneficiaries of the plan – teachers. The Government does not have unilateral access to the assets of the trust (including changing contribution amounts, taking contribution holidays, or withdrawals).

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Commented [DK(-T1): The AG has suggested adding the following: However, we recognize that the significant difference between the discount rate used by OTTP and the discount rate used by the Province has contributed to the issue of a Pension Asset on the Government's financial statements that we are recommending be corrected. Our cross Canada review indicated that this situation is a significant anomaly in Canada.

We can acknowledge that the Pension Asset has arisen because contributions and asset growth in the plan has outpaced the growth of the obligation for benefits under the Province's application of PS 3250.

However, the AG's statement above represents the AG's view and is a conclusion of sorts and not a fact. We also have no basis to agree with the anomaly comment. Therefore we respectfully decline to include any statements to the effect suggested.

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The following facts and assumptions have been accepted without further analysis or verification:

- As a jointly sponsored plan, the plan meets the definition of a joint benefit plan under S. 3250 of the Public Sector Handbook.
- The actuarial and other assumptions that factored into the valuation used for accounting purposes, before considering the appropriateness of the recognition of an asset or the need for a valuation allowance related to any asset, are appropriate and meet the requirements of S. 3250.
- The Plan's most recent preliminary funding valuation reported a preliminary funding surplus of \$13.2 billion as at January 1, 2016, as reported on the OTTP website. The OTTP's public financial statements showed a deficit for accounting purposes of \$1.8 billion in its financial statements as at December 31, 2015. These financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook, which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the funding surplus or deficit.
- As at March 31, 2016, there were no written agreements in place for the Province to unilaterally access the surplus to reduce future minimum contributions or withdraw any amounts from the plan.

- The OTPP is regulated by the Superintendent of Financial Institutions Financial Services Commission of Ontario. Funding plans must be filed with this regulator to monitor that assets of the fund are reasonably sufficient to meet the liabilities of the pension plan on a continuing basis. Per 78(1) of the Pension Benefits Act: No money that is surplus may be paid out of a pension fund to the employer without the prior consent of the Superintendent.
- Management has received legal commentary about the role of the Superintendent. From this advice, management has concluded that despite this regulation the Province could utilize a surplus through contribution reductions as “Neither the PBA nor the regulations to the PBA (the “Regulations”) require the Superintendent’s consent for surplus to be *utilized* for a contribution holiday or to amend the contribution formula under the OTPP.” Further, although changes to the OTPP text would be required to be registered with the Superintendent, “The authority of the Superintendent to refuse to register an amendment under the PBA (in whole or in part) is limited to circumstances where the amendment is void or if the pension plan with the amendment would cease to comply with the PBA and the Regulations.” (Source: Osler memo dated September 26, 2016). We acknowledge that the Auditor General of Ontario is not in a position to confirm this information. Nevertheless, we have relied on the Osler’s memo and management’s conclusions without further analysis verification.
- The Auditor General’s Office has indicated in their letter of September 26, 2016 that they are of the view that the Pension Asset in question is not controlled by the Government and does not meet the definition of an Asset under P53210, but meets the definition of a Contingent Asset under P53320. Contingent Assets are not recorded in financial statements, but can be disclosed in the notes to the financial statements.

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Relevant Extracts from the TPA

Section 5 (1.1) of the TPA states that the total amount of contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year. There can be instances where contributions would not be equal between the sponsors, such as the government’s payments in connection with forgone inflation adjustments and the additional 1.1% special contributions (Section 5 (8)).

Commented [DK(-T2): Deletion suggested by the AG

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Section 10 of the TPA provides that the Minister of Education and the executive of OTF may enter into an agreement that provides for, among other things, the joint management of the Plan and the sharing of entitlement to gains or surplus under the plan Plan and of liability for deficiencies in the pension fund.

Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Partners) have entered into an agreement for the management of the Plan (Partners’ Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners’ a Agreement.¹ The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners can deviate from the FMP by agreement.

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Relevant Extracts from the Partners’ Agreement

The Partners’ Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners in sponsoring the OTPP. Paragraph 8 of the Partnership Agreement

¹ Partners’ Agreement, section 110.

states that the partners will be responsible for designing the Pplan structure, setting the benefits of the Pplan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, making changes to the Pplan, this agreement or other planPlan documents, deciding whether or not to file a valuation more frequently than required by the *Pension Benefits Act*, appointing the OTTP Board, and defining the role of the Board.

Paragraph 74 requires negotiation in good faith regarding changes to the planPlan that flow from a valuation that is be filed with the regulators.

Paragraph 75 of the Partners' Agreement requires the Partners to advise the Board of OTTP of what changes affecting benefits and contribution rates they are proposing so that the Board can provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

If the partners cannot agree on the changes required to the planPlan, a mediator is appointed to assist the Partners in coming up with an agreement. The mediator is responsible for submitting a report to the partners on his or her views on the positions of the partners and provide a recommendation to the Partners. If the partners do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented. Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

In addition to the clauses identified above, the Partners' Agreement has an appendix called the Funding Management Policy which sets out the Partners' responsibilities in making funding decisions and surplus allocation regarding the planPlan.

Relevant Extracts from the FMP

The FMP is an appendix to the Partners' Agreement that speaks to how the planPlan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTTP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTTP.

The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the planPlan. The following three are most relevant to addressing surpluses:

- i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
- ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
- iii) Permanent improvement zone is where the planPlan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for

actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the Partners are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

It is our understanding that the ~~plan~~Plan is currently in the Restoration Zone. We understand that contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both partners, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

If the ~~plan~~Plan gets to either the temporary improvement zone or the permanent improvement zone, section 4.06 and subsection 5.05(b) of the FMP provides that a benefit improvement can only occur if the partners (the Ontario government and the OTF) have entered into a written agreement governing the manner in which the contribution by the government and other employers may be adjusted to offset any surplus distribution or benefit improvement (temporary or permanent) to be granted.

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DRAFT

From: MacIntyre, Kyle (TBS) []
To: Bromm, William (CAB) [William.Bromm2@ontario.ca]; Kwamena, Boafoa (CAB) [Boafoa.Kwamena@ontario.ca]; McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Fwd: Pension asset expert advisory panel report
Date: Tuesday, February 07, 2017 15:19:59
Attachment 1: 17 02 06 Executive Summary final.docx
Attachment 2: ATT00001.htm
Attachment 3: 17 02 06 Pension Asset Expert Advisory Panel Report Final.docx
Attachment 4: ATT00002.htm
Attachment 5: TBS Transmittal Letter.docx
Attachment 6: ATT00003.htm

Begin forwarded message:

From: "Angus, Helen (TBS)" <Helen.Angus@ontario.ca>
Date: February 7, 2017 at 2:15:56 PM EST
To: "MacIntyre, Kyle (TBS)" <Kyle.MacIntyre@ontario.ca>
Subject: **FW: Pension asset expert advisory panel report**

From: Patricia O'Malley
Sent: February 7, 2017 2:15:45 PM (UTC-05:00) Eastern Time (US & Canada)
To: Sandals, Liz (TBS)
Cc: Angus, Helen (TBS)
Subject: Pension asset expert advisory panel report

Dear Ms. Sandals

On behalf of the Panel, I am attaching a cover letter and final copies of our report and the executive summary.

Sincerely

Tricia O'Malley

Attachment 17 02 06 Executive Summary final.docx (32256 Bytes) cannot be converted to PDF format.

Attachment 17 02 06 Pension Asset Expert Advisory Panel Report Final.docx (104448 Bytes) cannot be converted to PDF format

By email

210 Cambria Street
Stratford, Ontario
N5A 1J1

Hon. Liz Sandals
President of the Treasury Board
Treasury Board Secretariat
Room 4320, 99 Wellesley Street West
Toronto, Ontario
M7A 1W3

February 6, 2017

Re: Pension Asset Expert Advisory Panel Report

Dear Ms. Sandals

As announced on November 10, 2016, the government formed an independent expert advisory panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's net pension assets.

The Panel's mandate was to provide advice on both the criteria required to be met to recognize a net pension asset, as well as how such assets should be valued.

After internal briefings and a second meeting with the Auditor General on February 3, the Panel has completed its work on the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan and has finalized the report and executive summary attached.

On behalf of the Panel, I would like to express our appreciation for the co-operation and assistance we received from everyone involved in this issue.

Yours truly

A handwritten signature in black ink that reads "Patricia O'Malley". The signature is written in a cursive, flowing style.

Patricia O'Malley, FCPA, FCA
Chair, Pension Asset Expert Advisory Panel

Cc: Ms. Helen Angus, Deputy Minister, TBS

From: Sagun, Allyna (TBS) []
To: 'bonnie.lysyk@auditor.on.ca' [bonnie.lysyk@auditor.on.ca]
CC: Thompson, Scott (MOF) [Scott.Thompson@ontario.ca]
Subject: Pension Asset Expert Advisory Panel
Date: Wednesday, November 23, 2016 15:09:19
Attachment 1: Bonnie Lysyk - November 16 - Final.pdf
Attachment 2: 2016-11-23 Joint DMs Memo to AG.pdf

Ms. Bonnie Lysyk

Auditor General of Ontario

Office of the Auditor General of Ontario

20 Dundas Street West, Suite 1530

Toronto, Ontario M5G 2C2

November 23, 2016

Dear Ms. Lysyk,

As announced on November 10, 2016, in connection with the release of the 2015-16 Public Accounts, the government has formed an expert advisory panel to deliver advice and recommendations to the government as to the application of public sector accounting standards to Ontario's pension assets.

Panel members will provide advice on both the criteria required to be met to recognize a net pension asset and as well as how such assets should be valued. The report back from the panel is expected by the end of the calendar year.

To support the work of the panel, we would like to share documentation reflecting your view on the issue. Please confirm that we can share your letters to us dated September 13, 2016 and September 26, 2016 to ensure the panel has a fulsome understanding of your view.

Thank you for your assistance,

Original signed by

Scott Thompson

Deputy Minister

Ministry of Finance
Management Board of Cabinet

Original signed by

Helen Angus

Deputy Minister, Treasury Board

Secretary of Treasury Board and

Ministry of Finance

Office of the
Deputy Minister

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Ministère des Finances

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99, rue Wellesley Ouest
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Télécopieur: (416) 325-1612

Ms. Bonnie Lysyk
Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario M5G 2C2

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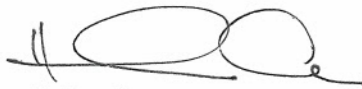
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Scott Thompson
Deputy Minister
Ministry of Finance

A handwritten signature in black ink, appearing to be 'H. Angus', with a long horizontal stroke extending to the right.

Helen Angus
Deputy Minister, Treasury Board
Secretary of Treasury Board and Management
Board of Cabinet

Ministry of Finance

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Deputy Minister

Frost Building South
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Ms. Bonnie Lysyk
Auditor General of Ontario
Office of the Auditor General of Ontario
20 Dundas Street West, Suite 1530
Toronto, Ontario M5G 2C2

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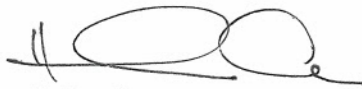
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Scott Thompson
Deputy Minister
Ministry of Finance

A handwritten signature in black ink, appearing to be 'H. Angus', with a long horizontal stroke extending to the right.

Helen Angus
Deputy Minister, Treasury Board
Secretary of Treasury Board and Management
Board of Cabinet

From: MacIntyre, Kyle (TBS) []
To: Bromm, William (CAB) [William.Bromm2@ontario.ca]; McLean, David (MOF) [David.McLean@ontario.ca]; Irvine, Marie (MAG) [Marie.Irvine@ontario.ca]
Subject: Pension Assets
Date: Thursday, October 20, 2016 11:06:49
Attachment 1: AG Focus Areas_Pension Workplan_v5.pptx

Hi All,

Pls find attached a deck for this afternoon's conversation.

K.



Auditor General Areas of Focus 2016-17 Public Accounts

October 19, 2016

Overview



Content	Slide
Context	3
Pension Assets	4
• Work streams	5
• Expert panel – next steps	6-11
Other Areas of Focus	
• High Risk	12
• Medium Risk	13
• Low Risk	14
Appendix – Bios of Potential Expert Panel Members	15-28

- The Office of the Auditor General of Ontario is an independent office of the Legislative Assembly that conducts value-for-money and financial audits of the provincial government, its ministries and agencies.
- As the Ontario government has had a number of high profile interactions with the Auditor General (AG), key areas of focus for the AG have been identified for the 2016-17 Public Accounts (categorized by high-, medium-, and low-risk);

Pension Assets – High Risk



- In preparing the 2015-16 Public Accounts, the province and the Auditor General's Office engaged in discussions regarding the appropriate application of Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.
- Taking into consideration the time-limited regulation requiring the 2015-16 public accounts reflect a full valuation allowance against the pension assets, the AG provided her opinion that the 2015-16 results were fairly stated but qualified her opinion for lack of restatement of the 2014-15 results.
- A number of work streams are in process related to accounting for pension assets, including decisions to make on the expert panel, such as composition, supports, and how to use the results of the report from the panel.

Pension Assets – Work streams



	Work stream	Status	Next Steps
1	Expert Panel	Panel members identified; Finalizing candidates for chair; OIC re: formation of panel to TB on Oct 18; Project manager from OIAD identified	Finalize panel and chair
2	Valuation of pension asset(s)	Discussions on methodology with PwC	Procurement
3	Policy discussions with EDU and Cabinet	Initial meeting being set up to discuss potential discussions	Meeting scheduled for Oct 21
4	Finalize OPCD position paper on OTPP	Paper is being written to encompass all of the analysis completed	Finalize paper this week
5	Additional analysis re: OPSEUPP/ HOOPP/CAATT	Review structure of these plans and document accounting position re: accounting	Research/ analysis
6	Plan AG review of pension assumptions for 2016-17	Planning in process	Finalize planning
7	Jurisdictional review	OPCD completing jurisdictional scan re: Canadian senior governments; working with NB to leverage work completed re: their target benefit plans	Complete scan this week
8	Additional research re: shared control	Preparing for discussion with PSAB staff re: two specific questions; discussion with legal re: opinion on shared control	Discussion with PSAB staff

Potential Composition of Panel



3 Person Panel

(all have confirmed interest)

Accounting expert – **Bill Matthews**
(Comptroller General Canada)

Actuarial expert - **Uros Karadzic**
(Partner EY; member PSAB Task Force)

Governance expert – **Murray Gold**
(Partner – Koskie Minsky)

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

4 or 5 Person Panel (including a chair)

(interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP (contacted by Steve Orsini)

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter (contacted by Cindy Veinot)

Others considered:

David Smith – Accountant, former Chairman of PwC Canada -- conflicted – on board of OTPP

Sheila Fraser – Accountant, former federal auditor general – does not have capacity

Support for panel – report writer



- Report writer – requirements:
 - Knowledge of pension accounting and actuarial modelling
 - Writing skills
- Considerations
 - PwC – lead by Lucy Durocher
 - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
 - Knowledgeable on plans and issues
 - Member of PSAB Task Force
 - Panel hires independent consultant
 - OPS will complete pre-work for procurement of another firm

Support for panel – project management



- Short timeline – Report due by December 31, 2016
- Role
 - Coordination and scheduling
 - Liaison with Province
 - Interim reports
 - Coordination with TBS communications re: final report
 - Administrative reporting
- Nelson Tam, Senior Manager from OIAD will be seconded to OPCD for this role

Support for panel – legal support



- Existing opinions
 - MAG
 - Oslers
 - Koskie Minsky – Ontario vs. BC
- Additional work required
 - Comparison of Ontario plans to New Brunswick Target Benefit Plans
 - Understanding of governance structures for HOOPP and CAATTPP
 - Multi-employer plans vs jointly sponsored plans
 - Potential opinion on shared control (will depend on accounting analysis)

Using the result of the report from the panel



- Provision of report to Auditor General
 - Any other contact with AG during the process
 - Panel may invite AG to discuss issue
 - Panel may request written document of AG's position
- Communications strategy
 - Commitment to make the report public
- Use of Deloitte summary if made available
 - May align or conflict with report of panel

Other



- Valuation opinion
 - Only OTPP? Expected increase in value of OPSEU asset – less than \$250 million
 - Start as soon as panel completes its work – procurement timing
- Responding to AG's 2016 Report -- Chapter 2
 - Expecting section on pension accounting; will be released prior to completion of work by panel; impact on panel's work
- Meeting with PSAB Task Force on employee future benefits -- timing

OTHER AREAS OF FOCUS FOR 2016-17 PUBLIC ACCOUNTS

Areas of Focus -- 2016-17 Public Accounts



High risk

1. Pension assets – see separate slides
2. Pension economic assumptions and disclosure in financial statements – follow up from 2015-16 audit (expect section in Ch 2 of 2016 AG report)
3. OPG and H1 – use of US GAAP to consolidate operations
 - AG accepted US GAAP on the basis of materiality in 2015-16, but required disclosure of differences using a methodology for OPG's asset retirement obligation that is inconsistent with OPG's view of a preferred accounting policy; AG has stated she will continue to require the same methodology in 2016-17 (expected deficit impact of \$1B – increase to deficit)
4. Accounting for transfer payments made at year-end – AG rejected guidance agreed to by previous AG that had been used for year-end transfers – impact on accounting for current year 4th quarter investments
5. Materiality– expecting AG to reduce materiality re: path to balance goals (2015-16 materiality = \$660M)

▪ Compiled from planning memo, draft audit findings report for 2015-16, and SUDs listing

Areas of Focus -- 2016-17 Public Accounts



Medium risk

6. Liabilities for contaminated sites
 - Follow up on prior year audit on adoption of standard – will need to focus on both updating estimates and ensuring new liabilities are captured
7. Additional sale of Hydro One
 - Sale to OPG (related party) and transactions with Chiefs of Ontario/First Nations
8. Accounting for Cap & Trade proceeds – new transaction stream
9. Consolidation – what is consolidated and how
 - Universities – AG will review analysis at university level
 - Children's Aid Societies -- AG believes these should be consolidated
 - Monitoring of WSIB and MVAC
 - Consolidation principles used by BPS – income statement expense presented net of 3rd party revenues -- AG recommends line by line consolidation
10. Non-Ontario Nuclear Funds Agreement unrealized gains/losses – AG recommends they should be recorded in statement of revenues and expenses – not recognized currently

Areas of Focus -- 2016-17 Public Accounts



Low risk

11. Deferred capital contributions

- Included in planning memo as a risk, but since then PSAB issued is post implementation review report and determined no additional guidance would be issued. AG communicated verbally that she would not be pursuing any additional discussion.

- Compiled from planning memo, draft audit findings report for 2015-16, and SUDs listing

APPENDIX – POTENTIAL PANEL MEMBERS

Potential panel members

Name	Accounting Expertise	Actuarial Expertise	JSPG Governance Expertise	Interest confirmed
Bill Matthews (Comptroller General – Canada)	Yes			Yes
Uros Karadzic (Partner EY – member PSAB Task Force)	Yes	Yes		Yes
Murray Gold (Lawyer – Koskie Minsky)			Yes	Yes
Jim Leech (former CEO OTPP)			Yes	Yes
Tricia O'Malley (former KPMG partner and standard setter)	Yes			Yes
Sheila Fraser (former Federal Auditor General)	Yes			No capacity
David Smith (former PwC Chairman)	Yes			Conflicted
Wayne Strelloff (former AG BC and Sask.)	Yes			Yes
Scott Simpson (Retired - former OTF Actuary)		Yes	Yes	Yes
Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
Philip Morse (Actuary – Willis Towers Watson)		Yes		No
Darlene Himick (Professor – U of Ottawa)	Yes			No
Christine Wiedman (Professor – U of Waterloo)	Yes			No capacity
Tom Scott (Professor – U of Waterloo)	Yes			Yes

Bill Mathews – Comptroller General of Canada, PSAB Board Member



Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Before joining the Expenditure Management Sector, Mr. Matthews worked at the Office of the Comptroller General for seven years, serving as the Assistant Comptroller General in the Financial Management and Analysis Sector from 2009 to 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He holds a Bachelor of Commerce from Dalhousie University.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

Uros Karadzic – Actuary, Partner EY, Member PSAB Pensions Task Force



Uros Karadzic is a partner and the national leader of the Reward practice. He is a pension actuary located in Toronto, Canada.

His primary focus is in the following areas:

- Pension audit and internal audit;
- Pension and benefit issues in Merger & Acquisition transactions; and
- On-going advisory services on retirement benefit plans.

He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

M&A transaction and integration, supporting clients by clearly identifying and measuring risks and costs. He also advised on appropriate measures to reduce those costs, focusing on post-acquisition funding requirements.

Murray Gold – Koskie Minsky



Murray Gold is a senior pension and benefits partner (see: Chambers Canada 2017 Rankings) with a national pension and benefits practice. He is a leading practitioner in the area of pensions and employee benefits. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions.

Mr. Gold advises governing boards of public sector and jointly trustee pension and benefits plans across Canada in regard to compliance and best-practice issues. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario and Alberta, and in health benefit plan reforms in Ontario and British Columbia. He represented stakeholder interests in insolvency proceedings involving Air Canada in 2003 and 2009, and Stelco in 2005. In 2009 – 2010, he lead Koskie Minsky's team in establishing Canada's first funded postretirement health care trust in the auto sector. This involved the creation of new tax laws governing the tax treatment of postretirement benefit trusts and the negotiation and implementation of arrangements to govern Canada's first funded employee life health trust.

Murray Gold is a Fellow of the Ontario Teachers' Federation, an honor in recognition of his work in regard to the Ontario Teachers' Pension Plan.

Murray served on the Firm's Executive Committee and then as the Firm's Managing Partner from 2012-2016.

Jim Leech – former CEO of Ontario Teacher's Pension Plan



Mr. Leech joined Teachers' in 2001 to lead Teachers' Private Capital and was appointed President & CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

Before joining Teachers', Mr. Leech was president and CEO of Unicorp Canada Corporation, one of Canada's first public merchant banks, and Union Energy Inc., then one of North America's largest integrated energy and pipeline companies. During the 1990s, he guided two start-up technology companies - Disys Corporation and Kasten Chase Applied Research - to the revenue generation stage.

Mr. Leech holds a B.Sc. (Hons Math and Physics) from the Royal Military College of Canada and an MBA from Queen's University. He is also a graduate of the Institute of Corporate Directors.

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Christine Wiedman, Ph.D., FCPA – University of Waterloo



- Christine is interested in financial reporting and governance issues, including the determinants of firms' financial reporting and disclosure choices, the role of regulation on corporate fraud, and the interpretation of accounting information by capital market participants. Current projects examine: voluntary disclosure of political spending; whistleblower provisions of the Dodd-Frank Reform Act of 2010; gender diversity on corporate boards; changes in reporting and disclosure quality for restatement firms; and the role of gender in the reward of research collaboration.
- Christine has authored papers on pension related topics

Tom Scott, Ph.D., MBA -- University of Waterloo



- A noted leader and senior administrator, Dr. Scott comes to the School of Accounting and Finance (SAF) from the Alberta School of Business at the University of Alberta, where he held positions of Vice Dean and Professor of Accounting. Tom has created a legacy of strategic and academic excellence for the Alberta School of Business. He led several academic program initiatives, while building a strong platform to support both teaching and research. Tom has published in leading academic and practitioner journals, and has been a member of the Accounting Standards Board of Canada (AcSB) from 2003 to 2011. In this capacity, Tom chaired the Academic Advisory Committee and played an important role in developing Accounting Standards for Private Enterprises.
- Tom earned his PhD from Queen's University and holds a Master Business Administration and Bachelors of Commerce from McGill University. In addition to his appointment as Director, Tom is also a professor, with tenure, in the School of Accounting and Finance. In August 2012, Tom was awarded the [Queen Elizabeth II Diamond Jubilee Medal](#) for his significant contributions to the improvement of accounting standards in Canada.

From: MacIntyre, Kyle (TBS) []
To: Bromm, William (CAB) [William.Bromm2@ontario.ca]; McLean, David (MOF) [David.McLean@ontario.ca]; Irvine, Marie (MAG) [Marie.Irvine@ontario.ca]
Subject: Pension Assets
Date: Thursday, October 20, 2016 11:06:49
Attachment 1: AG Focus Areas_Pension Workplan_v5.pptx

Hi All,

Pls find attached a deck for this afternoon's conversation.

K.



Auditor General Areas of Focus 2016-17 Public Accounts

October 19, 2016

Overview



Content	Slide
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Pension Assets	4
• Work streams	5
• Expert panel – next steps	6-11
Other Areas of Focus	
• High Risk	12
• Medium Risk	13
• Low Risk	14
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- The Office of the Auditor General of Ontario is an independent office of the Legislative Assembly that conducts value-for-money and financial audits of the provincial government, its ministries and agencies.
- As the Ontario government has had a number of high profile interactions with the Auditor General (AG), key areas of focus for the AG have been identified for the 2016-17 Public Accounts (categorized by high-, medium-, and low-risk);

Pension Assets – High Risk



- In preparing the 2015-16 Public Accounts, the province and the Auditor General's Office engaged in discussions regarding the appropriate application of Public Sector Accounting Board's (PSAB) standards, specifically in relation to pension accounting for the province's jointly sponsored pension plans.
- Taking into consideration the time-limited regulation requiring the 2015-16 public accounts reflect a full valuation allowance against the pension assets, the AG provided her opinion that the 2015-16 results were fairly stated but qualified her opinion for lack of restatement of the 2014-15 results.
- A number of work streams are in process related to accounting for pension assets, including decisions to make on the expert panel, such as composition, supports, and how to use the results of the report from the panel.

Pension Assets – Work streams



	Work stream	Status	Next Steps
1	Expert Panel	Panel members identified; Finalizing candidates for chair; OIC re: formation of panel to TB on Oct 18; Project manager from OIAD identified	Finalize panel and chair
2	Valuation of pension asset(s)	Discussions on methodology with PwC	Procurement
3	Policy discussions with EDU and Cabinet	Initial meeting being set up to discuss potential discussions	Meeting scheduled for Oct 21
4	Finalize OPCD position paper on OTPP	Paper is being written to encompass all of the analysis completed	Finalize paper this week
5	Additional analysis re: OPSEUPP/ HOOPP/CAATT	Review structure of these plans and document accounting position re: accounting	Research/ analysis
6	Plan AG review of pension assumptions for 2016-17	Planning in process	Finalize planning
7	Jurisdictional review	OPCD completing jurisdictional scan re: Canadian senior governments; working with NB to leverage work completed re: their target benefit plans	Complete scan this week
8	Additional research re: shared control	Preparing for discussion with PSAB staff re: two specific questions; discussion with legal re: opinion on shared control	Discussion with PSAB staff

Potential Composition of Panel



3 Person Panel

(all have confirmed interest)

Accounting expert – **Bill Matthews**
(Comptroller General Canada)

Actuarial expert - **Uros Karadzic**
(Partner EY; member PSAB Task Force)

Governance expert – **Murray Gold**
(Partner – Koskie Minsky)

Considerations for selection of chair:

- Spokesperson for the panel
- Should the chair be an accountant given the nature of the issue
- Potential conflicts

4 or 5 Person Panel (including a chair)

(interest of all potential chairs not yet confirmed)

Chair – Options under consideration:

Jim Leech – former CEO OTPP (contacted by Steve Orsini)

Tricia O'Malley – Accountant, former partner at KPMG, former standard setter (contacted by Cindy Veinot)

Others considered:

David Smith – Accountant, former Chairman of PwC Canada -- conflicted – on board of OTPP

Sheila Fraser – Accountant, former federal auditor general – does not have capacity

Support for panel – report writer



- Report writer – requirements:
 - Knowledge of pension accounting and actuarial modelling
 - Writing skills
- Considerations
 - PwC – lead by Lucy Durocher
 - Advisor to province on issue – working on comprehensive position paper but not issuing an opinion – consider whether conflicted
 - Knowledgeable on plans and issues
 - Member of PSAB Task Force
 - Panel hires independent consultant
 - OPS will complete pre-work for procurement of another firm

Support for panel – project management



- Short timeline – Report due by December 31, 2016
- Role
 - Coordination and scheduling
 - Liaison with Province
 - Interim reports
 - Coordination with TBS communications re: final report
 - Administrative reporting
- Nelson Tam, Senior Manager from OIAD will be seconded to OPCD for this role

Support for panel – legal support



- Existing opinions
 - MAG
 - Oslers
 - Koskie Minsky – Ontario vs. BC

- Additional work required
 - Comparison of Ontario plans to New Brunswick Target Benefit Plans
 - Understanding of governance structures for HOOPP and CAATTPP
 - Multi-employer plans vs jointly sponsored plans
 - Potential opinion on shared control (will depend on accounting analysis)

Using the result of the report from the panel



- Provision of report to Auditor General
 - Any other contact with AG during the process
 - Panel may invite AG to discuss issue
 - Panel may request written document of AG's position
- Communications strategy
 - Commitment to make the report public
- Use of Deloitte summary if made available
 - May align or conflict with report of panel

Other



- Valuation opinion
 - Only OTPP? Expected increase in value of OPSEU asset – less than \$250 million
 - Start as soon as panel completes its work – procurement timing
- Responding to AG's 2016 Report -- Chapter 2
 - Expecting section on pension accounting; will be released prior to completion of work by panel; impact on panel's work
- Meeting with PSAB Task Force on employee future benefits -- timing

OTHER AREAS OF FOCUS FOR 2016-17 PUBLIC ACCOUNTS

Areas of Focus -- 2016-17 Public Accounts



High risk

1. Pension assets – see separate slides
2. Pension economic assumptions and disclosure in financial statements – follow up from 2015-16 audit (expect section in Ch 2 of 2016 AG report)
3. OPG and H1 – use of US GAAP to consolidate operations
 - AG accepted US GAAP on the basis of materiality in 2015-16, but required disclosure of differences using a methodology for OPG's asset retirement obligation that is inconsistent with OPG's view of a preferred accounting policy; AG has stated she will continue to require the same methodology in 2016-17 (expected deficit impact of \$1B – increase to deficit)
4. Accounting for transfer payments made at year-end – AG rejected guidance agreed to by previous AG that had been used for year-end transfers – impact on accounting for current year 4th quarter investments
5. Materiality– expecting AG to reduce materiality re: path to balance goals (2015-16 materiality = \$660M)

▪ Compiled from planning memo, draft audit findings report for 2015-16, and SUDs listing

Areas of Focus -- 2016-17 Public Accounts



Medium risk

6. Liabilities for contaminated sites
 - Follow up on prior year audit on adoption of standard – will need to focus on both updating estimates and ensuring new liabilities are captured
7. Additional sale of Hydro One
 - Sale to OPG (related party) and transactions with Chiefs of Ontario/First Nations
8. Accounting for Cap & Trade proceeds – new transaction stream
9. Consolidation – what is consolidated and how
 - Universities – AG will review analysis at university level
 - Children's Aid Societies -- AG believes these should be consolidated
 - Monitoring of WSIB and MVAC
 - Consolidation principles used by BPS – income statement expense presented net of 3rd party revenues -- AG recommends line by line consolidation
10. Non-Ontario Nuclear Funds Agreement unrealized gains/losses – AG recommends they should be recorded in statement of revenues and expenses – not recognized currently

Areas of Focus -- 2016-17 Public Accounts



Low risk

11. Deferred capital contributions

- Included in planning memo as a risk, but since then PSAB issued is post implementation review report and determined no additional guidance would be issued. AG communicated verbally that she would not be pursuing any additional discussion.

- Compiled from planning memo, draft audit findings report for 2015-16, and SUDs listing

APPENDIX – POTENTIAL PANEL MEMBERS

Potential panel members

Name	Accounting Expertise	Actuarial Expertise	JSPG Governance Expertise	Interest confirmed
Bill Matthews (Comptroller General – Canada)	Yes			Yes
Uros Karadzic (Partner EY – member PSAB Task Force)	Yes	Yes		Yes
Murray Gold (Lawyer – Koskie Minsky)			Yes	Yes
Jim Leech (former CEO OTPP)			Yes	Yes
Tricia O'Malley (former KPMG partner and standard setter)	Yes			Yes
Sheila Fraser (former Federal Auditor General)	Yes			No capacity
David Smith (former PwC Chairman)	Yes			Conflicted
Wayne Strelloff (former AG BC and Sask.)	Yes			Yes
Scott Simpson (Retired - former OTF Actuary)		Yes	Yes	Yes
Andrew Fung (Actuary – Morneau Shepell)		Yes		No
Anne Soh (Actuary – OMERS)		Yes		No
Philip Morse (Actuary – Willis Towers Watson)		Yes		No
Darlene Himick (Professor – U of Ottawa)	Yes			No
Christine Wiedman (Professor – U of Waterloo)	Yes			No capacity
Tom Scott (Professor – U of Waterloo)	Yes			Yes

Bill Mathews – Comptroller General of Canada, PSAB Board Member



Bill Matthews was appointed Comptroller General of Canada effective July 17, 2014.

The Comptroller General is responsible for government-wide direction and leadership for financial management, internal audit, federal assets and acquired services. The Comptroller General also supports capacity building and professional development in each of these areas.

Prior to becoming the Comptroller General, Mr. Matthews was Assistant Secretary, Expenditure Management Sector, at the Treasury Board of Canada Secretariat, a position he accepted in 2011.

Before joining the Expenditure Management Sector, Mr. Matthews worked at the Office of the Comptroller General for seven years, serving as the Assistant Comptroller General in the Financial Management and Analysis Sector from 2009 to 2011.

Mr. Matthews is a chartered professional accountant with over 25 years of experience in accounting and financial management in both the public and private sectors.

He holds a Bachelor of Commerce from Dalhousie University.

He also serves as a board member of the Public Sector Accounting Board and the University of Ottawa's Institute for Mental Health Research.

Uros Karadzic – Actuary, Partner EY, Member PSAB Pensions Task Force



Uros Karadzic is a partner and the national leader of the Reward practice. He is a pension actuary located in Toronto, Canada.

His primary focus is in the following areas:

- Pension audit and internal audit;
- Pension and benefit issues in Merger & Acquisition transactions; and
- On-going advisory services on retirement benefit plans.

He has advised clients (Canadian and multinational) on all aspects of their pension and benefit plans, including accounting, funding, design, implementation, management, risk and administration.

Extensive experience in accounting for benefit plan obligations. He works with numerous EY audit teams, the EY Professional Practice (Canadian and Global) and industry bodies on benefit accounting issues.

M&A transaction and integration, supporting clients by clearly identifying and measuring risks and costs. He also advised on appropriate measures to reduce those costs, focusing on post-acquisition funding requirements.

Murray Gold – Koskie Minsky



Murray Gold is a senior pension and benefits partner (see: Chambers Canada 2017 Rankings) with a national pension and benefits practice. He is a leading practitioner in the area of pensions and employee benefits. Mr. Gold was appointed by the Premier of Ontario to Ontario's Technical Advisory Group on Retirement Security in February 2014. In 2008 he served as an expert advisor to the Ontario Expert Commission on Pensions.

Mr. Gold advises governing boards of public sector and jointly trustee pension and benefits plans across Canada in regard to compliance and best-practice issues. He represents pension boards, as well as plan sponsors, retiree groups and active members in pension litigation in pension regulatory and judicial proceedings.

Mr. Gold is lead counsel for Koskie Minsky in regard to current pension reform initiatives in Newfoundland, New Brunswick, Ontario and Alberta, and in health benefit plan reforms in Ontario and British Columbia. He represented stakeholder interests in insolvency proceedings involving Air Canada in 2003 and 2009, and Stelco in 2005. In 2009 – 2010, he lead Koskie Minsky's team in establishing Canada's first funded postretirement health care trust in the auto sector. This involved the creation of new tax laws governing the tax treatment of postretirement benefit trusts and the negotiation and implementation of arrangements to govern Canada's first funded employee life health trust.

Murray Gold is a Fellow of the Ontario Teachers' Federation, an honor in recognition of his work in regard to the Ontario Teachers' Pension Plan.

Murray served on the Firm's Executive Committee and then as the Firm's Managing Partner from 2012-2016.

Jim Leech – former CEO of Ontario Teacher's Pension Plan



Mr. Leech joined Teachers' in 2001 to lead Teachers' Private Capital and was appointed President & CEO in 2007. Under his leadership, the organization became one of the world's leading private equity investors.

Mr. Leech has gained recognition for his expertise and leadership in the private equity industry and as CEO of several public companies. He has a solid reputation for building businesses and strong management teams and has led large public companies operating and investing in the financial services, real estate and energy industries, as well as start-up technology businesses.

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Professor Himick has presented her research at numerous academic conferences and has been an invited speaker at several industry forums. Her studies have been published in peer-reviewed journals such as Auditing and Accountability Journal and Critical Perspectives on Accounting. Her research focuses on pension accounting, responsible investing by pension funds, and the use of experts during standard setting. She is also interested in accounting history and the accounting profession, specifically its interaction with the actuarial profession. Ms. Himick has received funding from the Fonds québécois de la recherche sur la société et la culture (FQRSC) to study the use of accounting information in the context of retirement plans in Canada and the United States.

Christine Wiedman, Ph.D., FCPA – University of Waterloo



- Christine is interested in financial reporting and governance issues, including the determinants of firms' financial reporting and disclosure choices, the role of regulation on corporate fraud, and the interpretation of accounting information by capital market participants. Current projects examine: voluntary disclosure of political spending; whistleblower provisions of the Dodd-Frank Reform Act of 2010; gender diversity on corporate boards; changes in reporting and disclosure quality for restatement firms; and the role of gender in the reward of research collaboration.
- Christine has authored papers on pension related topics

Tom Scott, Ph.D., MBA -- University of Waterloo



- A noted leader and senior administrator, Dr. Scott comes to the School of Accounting and Finance (SAF) from the Alberta School of Business at the University of Alberta, where he held positions of Vice Dean and Professor of Accounting. Tom has created a legacy of strategic and academic excellence for the Alberta School of Business. He led several academic program initiatives, while building a strong platform to support both teaching and research. Tom has published in leading academic and practitioner journals, and has been a member of the Accounting Standards Board of Canada (AcSB) from 2003 to 2011. In this capacity, Tom chaired the Academic Advisory Committee and played an important role in developing Accounting Standards for Private Enterprises.
- Tom earned his PhD from Queen's University and holds a Master Business Administration and Bachelors of Commerce from McGill University. In addition to his appointment as Director, Tom is also a professor, with tenure, in the School of Accounting and Finance. In August 2012, Tom was awarded the [Queen Elizabeth II Diamond Jubilee Medal](#) for his significant contributions to the improvement of accounting standards in Canada.

From: McLean, David (MOF) []
To: MacIntyre, Kyle (TBS) [Kyle.MacIntyre@ontario.ca]
Subject: RE: Final Deloitte Opinion
Date: Sunday, October 02, 2016 18:37:27

Thanks

From: MacIntyre, Kyle (TBS)
Sent: October 2, 2016 6:37 PM
To: McLean, David (MOF)
Subject: FW: Final Deloitte Opinion

FYI

From: Veinot, Cindy (TBS)
Sent: October-02-16 1:02 PM
To: Hughes, Karen (TBS); Orencsak, Greg (TBS); Thompson, Scott (MOF)
Cc: MacIntyre, Kyle (TBS); Laughton, Patrick (TBS); Petsche, Nadine (TBS)
Subject: Final Deloitte Opinion

See attached. We can discuss who will forward to the AG.

Kyle – could you forward to the balance of the internal group with the reminder that the opinion cannot be shared outside of management of the government, except for the auditor general and cannot be quoted from.

Thanks,

Cindy

From: Colley, Matthew (CA - Toronto) [<mailto:mcolley@deloitte.ca>]
Sent: October-02-16 11:18 AM
To: Petsche, Nadine (TBS); Veinot, Cindy (TBS)
Cc: Danyluk, Kerry (CA - Toronto)
Subject: Final Report

Hi Nadine and Cindy,

Please find attached our final report.

Kind regards,

Matt

Confidentiality Warning:

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jointes sont strictement interdites. Si vous n'êtes pas le destinataire prévu, veuillez en aviser immédiatement l'expéditeur en répondant à ce courriel et supprimez ce message et toutes ses pièces jointes de votre système. Merci.

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From: Ize-Dukuze, Marilyn (MOF) []
To: Young, Gwendolynne (MOF) [Gwendolynne.Young@ontario.ca]; McLean, David (MOF) [David.McLean@ontario.ca]
Subject: Tr: PAEAP products
Date: Thursday, February 09, 2017 13:01:44
Attachment 1: PAEAP Report_MOF Minister Statement_final - 020917.docx
Attachment 2: PAEAP Report_MOF Minister Statement_TBS edits_20170208 1800.docx
Attachment 3: PAEAP Report NR_v15_PO edits_MO ok - MOF edits - noon.doc

Fyi

Marilyn Ize-Dukuze
ph. 416.326.8529 | bb. 416.302.3609

Envoyé de mon smartphone BlackBerry 10 sur le réseau Rogers.

De: Patel, Lesley (MOF) <Lesley.Patel@ontario.ca>

Envoyé: jeudi 9 février 2017 12:00

À: Jackson, Kelly (MOF); Ingram, Kelsey (MOF); Moore, Brynne (MOF)

Cc: Maloney, Martha (MOF); Morier, Rebecca (MOF); Lone, Dianne (MOF); Wynberg, Lynsey (OFA); Ize-Dukuze, Marilyn (MOF)

Objet: PAEAP products

Hi,

Please find the revised news release – a couple of edits were made to the quick fact bullets. Please send the revised Minister's quote, when ready.

Also, flagging that the language around a balanced budget has been changed by PO to "on track", versus "remains committed" – we've changed that back to "remains committed" as per policy and FES language.

TBS had a few minor edits to the Minister's back pocket statement. Both a tracked and clean version are attached, but if there are no more edits from your end, the clean version should be final.

Let me know if you have any questions.

Thanks,

Lesley

P.S. Following up on our conversation Kelly – I advised TBS' that they were okay to remove the following bullet from the key messages:

* The application of the Panel's advice has also resulted in Ontario's 2015-16 net debt being reduced to \$294.6 billion from the \$305.2 billion reported in the 2015-16 Public Accounts.

Statement by Finance Minister Charles Sousa on the Pension Asset Expert Advisory Panel's Recommendations

February 13, 2017

Today, Charles Sousa, Ontario Minister of Finance, issued the following statement on the release of the Pension Asset Expert Advisory Panel Report.

"Ontario welcomes the expert advisory panel's report and their independent advice and final recommendations. I would like to thank the Pension Asset Expert Advisory Panel for its work on this complex issue.

With President of the Treasury Board Liz Sandals, we are accepting the panel's findings, including recognizing the Province's current net pension assets for two of Ontario's jointly-sponsored plans in its financial statements. This is consistent with the accounting standards for the treatment of jointly-sponsored pension plans that our government and previous governments have followed for the past 14 years.

By applying the panel's advice to the Province's 2015-16 finances, Ontario's deficit outcome for that year would have been \$3.5 billion, down from the \$5 billion reported in the [2015-16 Public Accounts](#). This revised deficit figure highlights our government's commitment to eliminating the deficit, which is key to Ontario's long-term economic growth.

Even with the Auditor's proposed accounting treatment, we had beaten our deficit targets for seven straight years while making strategic investments to create jobs and help people in their everyday lives. In the coming weeks, we will provide an update in Ontario's Third-Quarter Finances of our plan to eliminate the deficit."

For Media Inquiries only:

Kelsey Ingram, Minister's Office
416-326-1409

Scott Blodgett, Ministry of Finance
416-325-0324

Available Online
Disponible en Français

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Pension Asset Expert Advisory Panel Submits Final Report

*Government Accepts Independent Panel's Recommendations
on Accounting for Pension Plans*

NEWS

February 13, 2017

The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on the application of public sector accounting standards to two of Ontario's jointly sponsored pension plans: the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP).

The panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements, which Ontario has done consistently since 2001.

The panel's report outlined the following reasons why an asset exists and should be reported in the financial statements:

- Recognizing the asset will provide a faithful representation of the Province's financial position
- The accounting surplus in the plan has a future economic benefit
- The government controls access to that accounting surplus
- The accounting surplus exists as the result of past transactions and events
- It would be misleading not to recognize the Province's share of the assets in Public Accounts

In addition, the panel concluded that the government will be able to benefit from the full amount of each net pension asset, and as a result, no reduction in the value is necessary.

As a result, the government is accepting the panel's recommendations, which will inform the preparation of the Province's financial statements.

The Province remains on track committed to balance the budget by 2017-18, and remain balanced in 2018-19.

Responsible financial management is part of the government's plan to create jobs, grow our economy and help people in their everyday lives.

QUOTES

"TBC I would like to thank the expert advisory panel for their thorough analysis and recommendations on this complex accounting issue. We accept the advice of the panel and will use it in preparing the province's financial statements."

— Liz Sandals, President of the Treasury Board

"As a result of the expert assessment of the independent advisory panel, we now have additional advice on how to account for these jointly sponsored pension plans as assets. This advice will help us continue to present the province's finances fairly and accurately, as we work

Commented [CV1]: There were two main aspects to the panel's work – whether to recognize the assets and if so, how to measure them – this only addresses the first issue

Commented [CV2]: Not a reason why the asset exists – hence the change above

Commented [CV3]: Also not a reason by the asset exists – see comment 2 re: the change necessary in the introductory sentence

Commented [CV4]: See comment #1

toward balancing the budget in 2017-18. We will provide a full update on the Province's fiscal situation in the near future."

— Charles Sousa, Minister of Finance

QUICK FACTS

- ~~By applying the panel's advice, the province would see a reduction in debt to now \$10.7 billion.~~
- For 2015-16, ~~this following the advice of the panel~~ means the province's deficit ~~has-would been~~ lowered by \$1.5 billion and its net debt by \$10.7 billion.
- In preparing the 2015-16 Public Accounts of Ontario, the Province's professional accounting staff and the Auditor General's Office could not reach an agreement on the appropriate application of the Public Sector Accounting Board standards regarding pension accounting for the Province's jointly sponsored pension plans.
- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to net pension assets.
- The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and Public Sector Accounting Standards.
- In the coming weeks, the panel will issue a supplemental report that will provide advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).

ADDITIONAL RESOURCES

Read the panel's report: [\[insert hyperlink\]](#)

[Pension Asset Expert Advisory Panel Members](#)

[Pension Asset Expert Advisory Panel Terms of Reference](#)

[Read the 2015-16 Public Accounts of Ontario](#)

[Learn about the government's fiscal cycle](#)